Work and Pensions Committee

Oral evidence: Pensions automatic enrolment HC 579–i

10 February 2016

Ordered by the House of Commons to be published on 10 February 2016

Watch the meeting

Members present: Rt Hon Frank Field (Chair), Neil Coyle, John Glen, Richard Graham, Steve McCabe, Craig Mackinlay, Jeremy Quin

Questions 1 - 36

Examination of Witnesses

Witnesses: **Sara Graff**, Taxing Nannies, **Katharine Swire**, and **Aileen Broomfield**, gave evidence.

Q1 Chair: Welcome. Thank you very much for coming here this morning for both of our sessions. What we normally do to begin with is just go down the row and people say who they are to identify themselves for the record. Then we will kick off our first question. Aileen, if you would just introduce yourself.

Aileen Broomfield: My name is Aileen Broomfield and I am here because I am a micro-employer of a carer for my aunt.

Sara Graff: My name is Sara Graff. I am a chartered accountant and I run a payroll agency called Taxing Nannies, which specialises in employers of nannies and carers.

Katharine Swire: My name is Katharine Swire. I am a micro-employer of a nanny for my children and I am also a pension solicitor.

Chair: Great. Craig, would you begin?

Q2 Craig Williams: Sara, I declare an interest very similar to yours. I am a chartered accountant, still nominally in practice.

Do you think smaller employers are surprised when they receive this letter from the Pensions Regulator about auto-enrolment? Does it come as a bolt out of the blue? I am sure that whereas your payroll work used to be quite simple it is now going to become that much more complicated.

Sara Graff: Absolutely. I think it is difficult to know exactly whether employers are completely shocked when they get that first letter, particularly our clients because part of what we do is be proactive and advise them that auto-enrolment is coming on board at some point. Those clients who bother to read our newsletters will already be aware that there is something called auto-enrolment and when they get the Pensions Regulator letter they may not be completely surprised. The problem is not so much that they will be completely surprised when they get the letter, it is the feeling of panic when they get that letter.

That letter has changed considerably over a period of time. It has evolved. Various things have happened. In some ways it has got better. Initially they did not even have the first three letters of the PAYE reference so it became very complicated for people to nominate a contact. Initially that letter was to enable an employer to nominate contacts and after that they would get an e-mail communication or correspondence from the Pensions Regulator saying, "This is what you have to do" or with a bit more information.

The letter that now goes out basically says, "This is your duties checker" and it comes with a booklet. The booklet is quite good in that it goes through the various steps you need to take and if you go through the booklet and follow it, the first point says, "Nominate a contact". But if you read the letter and just, say, go to your duties checker and you go on to the website and look at the duties checker, you have to go through 12 steps in order to nominate a contact in the first place.

The problem for my clients, or a typical client, is that they are not particularly proactive in dealing with any bureaucracy at all or any administration and it requires a huge amount of effort from us to get anything done, whether it is enrolling them in payroll or getting them to inform us when there are changes to their payroll. So this is an extra layer, and a huge layer, of bureaucracy that to most of them becomes almost unworkable. You have those who basically do not understand the communications and there may be a reason for that. The people who employ nannies are not necessarily people in business. They may be foreign and not used to the UK system at all for anything and for carers even more so. Someone who has a carer, the last thing they can concentrate on is, "Oh my gosh, I have to enrol for payroll" and, "I have to do this and how on earth do I go about it?" and it is completely unwieldy and there are all these reporting requirements over and above that. I believe it is going to become almost unworkable unless they use a payroll agency like us, and that is not me promoting the service because I would rather not do it.

Q3 Chair: So it is like self-assessment where we all go off and get an accountant to do our returns for us.

Sara Graff: It may well be that. But one of the things is that I am a chartered accountant and we are payroll experts. We do not want to be pensions administrators and that is what it seems our job is evolving into as well. Obviously we make decisions as to how we run our business but it is just the layers of bureaucracy involved for every employer and if you are a big business or a business with several employees this is not such a big issue. If you are a single employer who is employing somebody, maybe because you have just had a baby, because you are sick, because somebody in the family has become very ill and you are taking on a carer—and you have very strict time limits—these are all things that become incredibly difficult. There are fines if you do not comply. At the moment we know staging dates in advance and we do have a bit of time to prepare for most clients. Roll on 18 months and as soon as you register as an employer your staging date will arrive and the amount of time you are going to have is very limited.

Q4 Neil Coyle: Nobody likes bureaucracy, do they, but you mention that your clients are reluctant to be involved in the bureaucracy side. Is it that they do not recognise the responsibilities they have as an employer or is that they expect you to do that as part of the payroll service you provide?

Sara Graff: It is a bit of both. It depends on the individual client. Our clients cover a very broad spectrum. Some do not understand their role as employers. Others do understand their role as employers but do not want to deal with the bureaucracy and would rather we did it. Obviously it is up to us as to how we deal with that. I don't think it is so much that they do not understand that they have a responsibility. There are numerous adverts; there is a lot of publicity about that whatever you are you become an employer. I don't think getting the message that they are going to become an employer is so much an issue, it is what happens at that point: how you deal with it; how you prepare for your staging date; how you choose a pension fund; how you work out what your earnings are? There are layers upon layers upon layers of decisions that have to be made even if you go through the NEST website.

Q5 Richard Graham: You paint a rather gloomy picture but isn't there a possible way round this, which in effect is for people like Aileen and Katharine to not actually be the employer and to contract companies like yours or other small companies that could be set up to provide nanny or carer services? The administration of that individual, including the pension, is handled by a company in the same way as if you are small employer you can take on an apprentice through someone who is the employer of the apprentice and you are contracting the service.

Sara Graff: I don't think we can do that. First, I think legally these people are employers and they have to remain employers. They are the ones who are employing a nanny. You may have a care agency that takes on all the administration; the carers become the employers of the agency. We are not in that position. We are a payroll bureau.

Q6 Richard Graham: You are not but couldn't other people be? Isn't that rather obvious?

Sara Graff: I don't think we can be because the legal consequences are that these people have to employ someone. The nature of the work is an employer/employee relationship.

Chair: Can Aileen and Katharine come in on this?

Aileen Broomfield: That leads on to your second question. I did consider using an agency and in principle I would have liked to have used an agency because it would take all the administration away from me and I would pay an invoice once a month, but my co-power of attorney was against that idea, partly because if I hired an agency I could not guarantee the same carer would attend to my aunt on a daily basis and with someone with dementia familiarity is really important. I can't speak for Katharine but you want to have the same person coming in every day rather than random people. So from that perspective being a direct employer was really the only option. But it is very clear on HMRC's website that you have to be an employer; you cannot treat them as self-employed; you cannot do anything else. So by dint of not using an agency, I have to be an employer.

Q7 John Glen: Sorry for butting in here, but that is about the mechanism by which the agency allocates you an individual. That is about their management process. That is not about the principle of allowing an agency to deal with the administration for you. The administration could be done by a third party and therefore save you from the distress of these bureaucratic hurdles.

Aileen Broomfield: Effectively I have outsourced the administration from a payroll perspective to Sara, paying her company to do that.

Q8 Neil Coyle: So you are paying; there is a business model issue, which is what Richard was alluding to. Companies who do provide a payroll service could charge extra to provide a pension service.

Aileen Broomfield: Yes, and that would be fair but then I am effectively relying on Sara to advise me on my pension responsibilities where she has not originally held herself up to be an expert on pension administration. Maybe my due diligence should be that I need to search out a company that is a pension expert, outsource the pension requirements to someone else and pay the relevant fees there.

Q9 Chair: Katharine, would you like to come in on this?

Katharine Swire: Yes. There are a few points to work through, I think. In terms of whether I would use an agency to employ my nanny, I would probably rather choose not to. I quite like to be independent; I want to choose my nanny independently. We very much enjoy the relationship we have with her personally and I am very happy to be her employer and undertake all the responsibilities that go with it. But as Aileen said, there are plenty of payroll providers so I outsourced my payroll because I am not capable of calculating tax and national insurance. I do the payments every week but they provide me with my payslips and P60s and so on.

They do offer the auto-enrolment service, which means that I can outsource all of it. What I am unsure of yet, and I need to do more research on, is what that entails and what their liability is. Speaking as a lawyer, I want to know if I am paying somebody to do it, they are promising to meet the dates and they are not going to get me into trouble by failing to meet it, otherwise I will do it myself for all the hard work that will entail.

There is certainly some nervousness. I polled friends and workmates. Nearly everybody I know who has a nanny and who has a payroll agency will use them so it means that these payroll agencies are taking on this extra layer and will have to be responsible. But there did seem to be a nervousness as to what the payroll agencies were promising or able to do. I think that if people are feeling they could not be promised that the date would be met that would cause problems.

Chair: Jeremy, you wanted to come in anyway, didn’t you, but what about taking the discussion further?

Q10 Jeremy Quin: It follows on from what Katharine was saying. Katharine, you are being very modest. Of course you could work out the payslips if you chose to do so. But it does beg the question if you have the right information to feel that you are able to ask the questions of the payroll providers. What information have you received so far from the regulator? Do you feel—being a lawyer worrying about your liability—that from the information you have received you have the right information to be able to ask the right questions of your payroll?

Katharine Swire: I am probably not your typical employer because I am a pension solicitor.

Jeremy Quin: Quite. Just the person to ask.

Katharine Swire: I am quite well versed in the terminology and when I received the initial letters the language did not make me nervous; I understand the staging dates, the opting-out, language like that. I am not sure that other people would necessarily understand and would feel more nervous.

I made a note. My first letter from TPR came last summer asking us to send the information. As a test I made my husband do it because he understands far less on this subject than I do. He filled it in. I think the letter and the booklet were perfectly self-explanatory but they are not set up for individuals like us—small businesses, perhaps—and he was asked to fill in boxes such as what his title is within the company. So he has put himself down as deputy HR director, acting, because he had to fill in something.

I suppose my feeling would be that this would make other people nervous if you are looking at this thinking, "Is this for me? Is this really for me? Am I really the person they are targeting? Have they got this wrong? Is this the wrong form?" whereas we blithely filled it in, sent it back, and got the letter back. But again the letter back is saying, "Have you nominated your contact?" and as a two-person family you are thinking, "It's us". It is very different from being a business; being an individual is quite different. I feel the letters do not contemplate that.

I know there are only so many different forms of the letter they can produce and so long as you are happy to go, "Okay, this is for me" despite the wording of it, it is okay but I think it could be off-putting or make people nervous.

Chair: Aileen, would you like to add to that?

Aileen Broomfield: I have not received a letter from the regulator yet.

Chair: Really?

Aileen Broomfield: I only just set up my aunt as an employer in October last year and my staging date is not until April next year so I don't know what the time lag on that is.

Sara Graff: It is about a year but sometimes it is more.

Q11 Jeremy Quin: Sara made some comments, basically saying that a lot of employers similar to the two of you are not necessarily as well versed as you in the requirements. This is a question for all of you.

I assume most people recruiting a carer or a nanny will go through an agency; you want to have some external ticks in the boxes before you recruit someone—I don't know this from personal experience—and it is not a matter of putting an advert in the paper and seeing what turns up, or is it?

Katharine Swire: It is probably different for a carer. The world is changing and I assumed before I set out to find my nanny that it would be a case of wanting to go through an agency. Somebody unbelievably said, "Try Gumtree" and I put my ad on and I had 75 responses within 12 hours. I whittled those down to a group of 15 suitable candidates and I had the most wonderfully well-qualified people who when they came to see me brought all their paperwork. It was up to me to make sure that everything was in place: the criminal record checks, the first aid certificates, their ability to work in the UK, and I did take that on. But I found that the range of people I was getting was perfectly adequate. In fact, nannies are telling me that they will look on social media and Gumtree and so on as much as going through an agency.

Q12 Jeremy Quin: So we can't hide behind the fact that there is probably an agency out there that will inform an employer of their responsibilities?

Katharine Swire: No.

Sara Graff: Can I just say something also about nanny agencies in general. I don't want to sound disparaging but I think you have to be careful. There are big nanny agencies that work out of central London offices. A lot of nanny agencies are individuals working from home. They do not necessarily go through the same processes that other recruitment agencies go through. They may not check references or even organise appointments. This is going back a bit. So you cannot rely on a nanny agency to be doing any of the background checks or anything. All they are is a facilitator to put an employer in touch with a prospective nanny. The nanny agency bit, to be honest, is a complete red herring.

Chair: Very good.

Q13 Neil Coyle: Sara, you mentioned the National Employment Savings Trust, NEST. How many of your clients did you refer directly to NEST? What proportion are you handling?

Sara Graff: The first thing to mention is that the majority of my clients are not staging until later this year, the end of this year, and the majority probably not until 2017, so we are not there yet. We had an informal arrangement, it was not a recommendation, with a pensions company that had contacted me. I had done all this research about a year ago. They had come up with a no-fee, one-stop solution where basically they said, "Provided your clients agree we will register them. We have a master trust, backed by Scottish Widows, and you don't have to do anything at all except give us the payroll information each month and set up the people". We started to use them and most of my clients were very happy to go along with that rather than NEST because NEST means they have to do more work.

What has happened over the last few weeks is that particular agency has now started to levy charges. We always gave our clients the choice, "You can use NEST, you can use various other pension providers", but our clients were coming back to us and saying, "We don't want anything to do with this. We were happy to go along to your company because we know that you just put our names forward, they send us all the communications, they do all the work, and all we have to do is basically sign the terms and conditions and the direct debit". They are now charging fees to do this—their monthly fees are very similar to the monthly fees that we charge for payroll—and there is going to be resistance from a large proportion of our clients. We are looking for alternatives and one of those is obviously NEST. So I am now registered as a delegate for NEST, which means that theoretically I can manage my clients that go through NEST, but I have to say to you that yesterday, just by trying to deal with one of my clients who had initially registered and then me going on with the process and filling in the bits that she hadn't, I was on that website for about two hours going backwards and forwards trying to find what I had to do.

As somebody who runs a payroll agency, I will get my head round that but if you are talking about individuals doing this—she got so far, this particular woman, but when I went back and looked there were lots of different things that she had not considered. She does not understand the difference between the bases on which you can calculate pensions, that there are different bases. She did not really properly understand about the postponement period and what postponement period is available. There is a 42-page booklet that you get, which says, "What happens when you reach the staging date?" or, "Employer notice template" is one. Another one is, "Guide to NEST's employer notices". That is 42 pages of going through this particular flow chart to find out which letters you have to send to your clients and when you get the letter, the letter has so many bits that you have to fill in.

Also there is an inaccuracy there, which I will bring to your attention now. In the budget the 1% rate was extended to the following April, to April 2018, and the next rate up was to April 2019. If you look at the NEST website, every bit of that website refers to October 2017, 2018 and 2019. It does not make mention of the correct rates. So even if you sent the notification to your client, on the templates that they said, you will be stating the wrong rates at the wrong times. It is incredibly complicated and you need a lot of time.

Chair: Neil, some of us visited NEST earlier in the week and we had a slightly different image, didn't we?

Q14 Neil Coyle: I am intrigued. To clarify, you say the issue you have had is where someone has tried to register themselves and then are coming back through an intermediary and there appears to be more work for you as an agency as an intermediary rather than for the individual. Is that right?

Sara Graff: Well, we can choose. I can make a choice and say, "Clients, we are not having anything to do with this. You are totally responsible for your registration".

Q15 Neil Coyle: Then you risk losing their business, I assume.

Sara Graff: Well, possibly, or possibly not. There obviously is that possibility. I am more concerned that if we do not take that responsibility on then that makes our payroll almost impossible because if we do not know what deductions to make we run the risk of not complying with the responsibilities that they have and then advising NEST accordingly. As a delegate, basically you can see your client's records. That is the idea. If they give us delegate status, we can go on, we can look at their account, we can amend it in any way and then view it as it goes along, and it probably will make sense for us to do. You can do this for your client provided they sign terms and conditions and provided they give you their bank account details in order to do that. So that obviously is one way. But none of these things should require a payroll agency to have to do this. Every employer has the opportunity to either do this themselves or to use an accountant, a payroll agency, whoever they want, but the system should be designed so that any individual should be able to do this in the same way that any individual theoretically can sign up to HMRC.

Q16 Neil Coyle: Any of you can come in on this point but, Sara, you specifically mentioned the point about there being more work with NEST than with the alternative agency.

Sara Graff: Oh, yes. The two things are completely different.

Q17 Neil Coyle: Is that for individuals or is that for you as the agency?

Sara Graff: For both. The individuals in the other one had to do nothing. With the managed system that we were going to use basically all I had to do was advise the pensions company that these are my employees who are going to stage. I would have already had a commitment from them that they wanted to use this particular agency. They then send them the terms and conditions and the direct debit forms. As soon as they sign those they then send them the notifications that they have to give their employees and we provide the payroll data to the particular pensions company. That is all we have to do.

With NEST it is completely different. Either we or they have to go on and we have to give a lot more information. With the pensions company, basically it is a template; it is three pages, just three simple bits. This is probably 10, 20 bits and then you have to do the notifications yourself.

Q18 Chair: Sara, why don't you give the Committee that contrast between what the company was doing and what NEST requires? That would really help us.

Sara Graff: Right. Okay.

Chair: Particularly as how they presented it to us yesterday, Katharine, I just wonder whether your deputy HR director, acting, has been through this procedure or not?

Katharine Swire: No, we haven't gone to that stage. I am currently thinking about who we would like to use. Being in the industry, I am aware of the different options out there and of course you get to hear the negative press about NEST maybe a little bit more than you would if you were on the outside. If I choose to go through my payroll company, my understanding, though I would like to check this with them, is that they only use NEST so I would be limited to that. So if I want to go elsewhere I would have to do it myself.

Q19 John Glen: One of our roles is to try to bring together different perspectives and reconcile what is happening. I have to say that when I visited NEST with some of the Committee on Monday afternoon, my impression was that it was a very straightforward process. There were three or four forms to fill in. There was a tick-box for the terms and conditions. There was a very straightforward process then of revisiting in order to add more employees. It was also presented to us that it was very well integrated with Sage and many of the other payroll packages, so it was an add-on to this. So I am a bit confused, I have to say—I am not making any judgment—about your evidence concerning how bureaucratic and difficult that is because to me it looked quite straightforward for an individual.

Sara Graff: I think with any of these things they are always very straightforward when somebody who knows what they are doing takes you through, knows which boxes to tick at which point.

Q20 John Glen: But there are only about four fields.

Sara Graff: But you have to find your way into those four fields first. If you go back, I would say it is not particular intuitive. I am pretty IT literate and I also understand the business pretty well so I can only say that I will get my head round this eventually but I am not sure about the individual. The other thing is—

Q21 Chair: Sara, for us the real value is you have had two models, haven't you?

Sara Graff: Yes.

Chair: You have had the private company one that you would have continued with but they were going to charge.

Sara Graff: Yes. Absolutely.

Chair: We would love some evidence on NEST.

Sara Graff: I am happy to provide that for you.

Q22 Craig Mackinlay: For Sara, and Katharine with the lawyer hat on, in terms of a liability for a professional, because I think the first port of call will be NEST for many, the amounts involved every month are going to be two and twopence in the early years.

Sara Graff: Absolutely.

Craig Mackinlay: Do you think the professionals are laying themselves open to offering advice they should not be giving because they are not properly registered with FCA and all that argument? I am sure you are going to say, "What shall I do?" and you are going to go, "The easiest, cheapest. We will go for NEST". I think the professionals could be crossing over a line in giving that advice and that is a worry.

Sara Graff: Yes, it is a worry. I did seek advice from the ICAEW when I was looking at how I could suggest to my clients that maybe they wanted to use a particular pensions company but obviously still giving them total choice. I did take that advice as to what I am able to do and what I am not able to do, but I think it is a very fine line and it is a line that I am not interested in crossing. I am not an IFA and I do not want to be an IFA. That is not where my skill set lies. So we do have an issue there. Also, it is almost like NEST is the default and we feel a bit safe if we say NEST because it is Government backed but whether that is giving best advice or not, I would not know.

Q23 Chair: Aileen, do you want to come in on this or do you just want to scream and run out of the door with the details we are getting?

Aileen Broomfield: I must say I would probably take the line of least resistance, so I would choose whichever was the easiest for me to do that did not require me to send out any separate notifications to my aunt's employee and effectively I would throw money at it.

Throwing money at it is my big issue. I am probably going to spend a lot more in charges than my employee is going to get in her pension fund. I am right on the cusp. It is not a fulltime carer; it is a part-time job. I will be paying three times in charges what my employee gets in the pension fund. I don't even know whether it can be transferable. It is probably going to be for a short period of time. I am kind of hoping it is almost going to go away for me and it will get to the point where my aunt will have to go into a care home and then I do not need to worry about it at all. What is even worse there is that I might have a year's worth of contributions of about £100, which really is no use to man nor beast. But certainly my thing will be the path of least resistance. Whatever is the least amount of effort, I will pay to do.

Q24 Craig Mackinlay: My worry, Sara, is that if you said to an IFA, "I've got a micro nanny employer. Would you like to have an interview with them and suggest a great market that's out there?" the IFA would laugh at you, frankly.

Sara Graff: No. They won't do it.

Craig Mackinlay: Of course they won't.

Sara Graff: IFAs won't take on that sort of thing.

Aileen Broomfield: Could I just interrupt for one second? I looked at the company that Sara was using. You can look at some of their frequently asked questions and then they say, "You need some advice. £325 plus VAT, please". So a simple question that I would have asked, just looking at the website, is three times the annual contributions in one go if I wanted to ask a slightly different question.

Q25 Richard Graham: This is all very helpful because it is raising questions in our minds. Sara, in your case and for other payroll providers, particularly for nannies and carers, do you think there would be value in NEST organising a conference, for as short a time as possible, for payroll providers and other intermediaries who are inevitably going to be the ones handling the pension question for most?

Sara Graff: Yes, I think it would be very helpful. I don't know whether NEST have done it previously but obviously over the years there have been a lot of different seminars for different organisations and things like that. But for micro employers their staging dates are only arising now, so a lot of what has happened before is in the past and needs to be refreshed. The other thing, from what I can see on the NEST website, is that they are about to change it in March. There are notices up about, "We are going to simplify it. We are going to do this. We are going to do that". That would probably be a good time for them to have an—

Q26 Richard Graham: Tentatively, Chairman, I think a recommendation could look at asking NEST, first, whether they are rejigging aspects of their admin in March as Sara suggests and, secondly, whether they can do a conference to the intermediary world for the smallest employers, nannies and carers really, which focuses on going through the forms and which can be filmed and put on the website and disseminated out there. I suspect that is going to be the way. If they can get early buy-in from people like Sara then it is going to be easier for you to give confidence to people who are using your payroll services.

Katharine, can I ask you, wearing your solicitor's hat, on pensions? The question raised earlier highlighted that someone like you decides to use an intermediary and the intermediary puts the auto-enrolment pension for your nanny into NEST without really considering the other alternatives in too much detail. Is that going to be legally okay? If later on there is a problem and for whatever grizzly reason NEST blows up, is there any liability going to fall on the intermediary, the payroll provider? Should we look at getting confirmation, if possible, from the DWP that that is a perfectly okay thing to do?

Katharine Swire: That might be a sensible route. I have not considered the point and I thought about it as an employer that I have to be happy that NEST is a sensible choice for me and for my employee, so I have been doing a little bit of research on things like charges. You can find a few websites comparing the charges between all the different providers and I think you would want to satisfy yourself as an employer that what you were taking on was not an outrageous charge to your nanny.

Q27 Richard Graham: Did you look at things like the tax relief, which not all of the providers do include but obviously NEST does?

Katharine Swire: Yes, but I do not know whether there are any independent comparisons. A lot of the comparisons are on alternative providers' websites.

Q28 Richard Graham: Legally that might be something that we could check with DWP. In terms of the role of intermediaries and so on, do you see it as inevitable that most people in your situation, who are not solicitors on the side, are going to be outsourcing predominantly to payroll providers?

Katharine Swire: I would expect so. If they were already using a payroll provider, people seem to be treating it as a given that they just use their payroll provider. I am not sure what the situation would be if you had chosen not to use a payroll provider. If you were brave enough maybe you would not do it, but I don't think I know anyone who does their own tax.

Q29 Richard Graham: What have you been told about the staging? When do you have to put this in place by?

Katharine Swire: 1 October this year.

Richard Graham: 1 October this year. Are you worried at all that there is not going to be enough time to complete this or that you might leave it too late for it all to happen or that the intermediary, were you to use one, would be overwhelmed with lots of requests from people at the last minute so that there is the equivalent of a tax return rush on 1 October?

Katharine Swire: I am hoping not. I think there will be a lot of requests this year. My first letter from the regulator was 15 months or so before my staging date.

Richard Graham: Which is enough time.

Katharine Swire: Which is enough time. I then got in touch with my nanny agency who told me that if I did want to go with them that I did not need to do anything until February. But looking at other people's experiences, I would want to check what their basis was because somebody using an agency told me that they seemed to be being treated on a first come first served basis, which is no use if there are deadlines. Surely they have to work on a deadline-by-deadline basis. If I told one of my clients their work would have to wait because they came later in the day, that would not really work. I assume that the agencies will get things done on time.

Q30 Richard Graham: I guess one thing we could look at is the resilience of the computer systems at places like NEST to see whether they have prepared for the inevitable last minute dotcom thing.

Aileen, from your point of view—and you rightly, I suspect, have taken the line of least resistance of who can sort this out for me and conveniently there is Sara to your left—in general do you feel that there is enough information about where people like you can turn to for help? If most people like you are using payroll providers, is that the simple default position?

Aileen Broomfield: To be honest, I have not looked into it too much. I know of my responsibilities. My default would be to ask my payroll agency. One of my interests in coming here in the first place, I had not even taken in all the stuff about NEST and my big thought was: who on earth would provide this service? It is just not cost effective to run this kind of pension fund. I could not go to the people who do my own pension fund because you think it is just not worth their while, especially as there are monthly contributions, the admin of it. I think of it entirely as a cost benefit and the cost of running the whole thing. I have no idea where I could go. I would probably Google something, but I would want a big name that I could rely on, which is why I would probably end up, as I say, going through my payroll agency or with NEST because I thought it was the Government.

Richard Graham: Yes, it was set up by the Government.

Aileen Broomfield: But it is backed by Government.

Q31 Richard Graham: In terms of where this is all leading, all three of you in slightly different ways have raised variations on the question of is the game worth the candle because there is a hell of effort and time and cost for all those involved. To what extent do you—and maybe we will take Katharine first and then Sara and Aileen—buy into the idea that this is a starting point to get 10 million people on to the ladder of savings and that the percentages of contribution for employee, employer and Government inevitably will need to increase over time in order to make the savings worthwhile? Do you feel that you are aware of that and buy into it and believe that that is a good or not a good thing? Katharine?

Katharine Swire: I absolutely agree that I should be auto-enrolling my nanny. I think it is a good thing. I agree that contributions will have to increase. The 8% seems about a sensible level, but that does not mean my nanny will see it that way. Again, I am not necessarily in a typical position. My nanny is not a UK national. She wants to return home at some point for her retirement and buy a house. That may well be before she is 55. When I started to explain the idea just to get her views before I came here, she laughed at the 1%. I think she sees having money tied up in something that she might not be able to access—and who knows if the law will change by the time she is 55 when she is thinking of returning home—for her may not be the most sensible investment. I may have an opt-out on my hands, I don't know.

Richard Graham: That is helpful. Sara?

Sara Graff: I buy into the idea because I appreciate that even with this and even at the 8% pensions are probably going to be completely underfunded, so I understand where all this is coming from. But I do have a big issue, and the big issue is, first of all, that my clients do not see it that way. Many of my clients get very little in the way of tax relief for their payroll. They are paying payroll costs. They are paying pay, PAYE and national insurance. If you are a carer you are getting the employment allowance but if you are a nanny you are not. They are not getting any relief that way. Some of them are entitled to childcare vouchers but the tax relief on that has been whittled away. Now what we are saying to them is, "In addition to that, for which you are not getting tax relief, you are expected to pay an additional amount for your nanny's pension, which is going to go up and in addition you are going to almost certainly have to pay some sort of admin charge unless you are going to do this yourself".

My bigger concern, and this is a really big concern, is that what will happen is that a significant proportion of people who take on nannies, for which there is already a significant black market, will either say they are self-employed, even though legally they cannot be self-employed, or they will pay them cash, or they will pay them cash to keep them below the £10,000 limit. That is a real issue for me as someone who works in the profession and has worked in the profession for many years. We only see the cusp, the legitimate people, because the rest go elsewhere, but we are sufficiently aware of what goes on. That is a very big concern because what it means is that the employees whom this is supposed to protect and benefit are the ones that will not get what they deserve, and that is of huge concern for me.

Richard Graham: Thank you. Aileen?

Aileen Broomfield: I support the idea of having a proper pension. I have one myself. I think everybody should have to save for their pensions. My concern is that it is a laughably small amount; 8% is probably a better amount. The employees are on such low wages and it sounds too much for them. My further concern is that in my own particular circumstance it is probably going to be for a quite a short period of time. Will that fund then just sit there and be eked away by charges until my carer comes to collect it? Is it portable? Can she move it from one place to another or is there a separate one for every employee every time she takes on a new role? It will just get leached away and the only people I can see this is going to be really worthwhile for are pension providers.

Q32 Chair: Aileen, when the Blair Government was thinking of these proposals, I thought we might fall back on the Lloyd George idea where you have a default fund particularly for the employees you have described, people who will be doing a short amount of work currently but they might in the longer term have employment in a residential care home and, therefore, be fulltime. One should have a compulsory registration for the default fund for you as an employer with your employee being able to then access their funds that have been built up, because they may have two or three people like you employing them before they have a fulltime job. With their new employer, they could make a choice about where they wanted to invest their funds, so we would not have funds moving about. Your employee's next person might be having that private employer that Sara was talking about and then you go on to another scheme. I thought to encourage people to save and to stop the eating in of charges, if one had a default scheme that you had to be part of, it took that away. It puts certain risks on taxpayers but it would secure funds that at some stage they could then take into the scheme of which they wanted to be members.

Aileen Broomfield: I think it would be far better to have something that belonged to that person and they could take it with them wherever they went and whatever carer, employer could fund as they go. It would also mean you would not have the problem of having to have any kind of transfer value unless you chose to do so. You could see it building up. It starts to become much more cost effective the more money that is in there. I think that would be a far better way. In terms of the NI benefit we get, I would much prefer if my employer's NI was waived into this fund and that would be worth a heck of a lot more. I get the £2,000 discount per annum or whatever up to on employer's NI, which nannies do not get, but I did not expect that so that is free money for me. It would be far better if instead of doing that I could waive that into a pension fund that otherwise I would have had to pay.

I think the key thing is if you do not have to have lots of tiny little pots everywhere. It is much easier to track as well; there is less admin; you do not have to write to god knows how many pension companies. It would be far better to do that. That would be far better.

Q33 Jeremy Quin: You have passionately referred to some of the problems that could occur and those who will attempt, via the black market, to avoid these charges and setting things up and fulfilling their responsibilities. Any clues for us as to how we can prevent that happening? What are the mechanisms one could use?

Sara Graff: I have been running my payroll agency for 20 years and I do not think my views have changed. My views are that the only way round this is that the pay that you pay your staff is tax deductible at whatever level, even if it is only not the full 45% or whatever some of my clients will inevitably pay in tax. Unless they have an incentive to declare the income to get some sort of tax relief, there is always the concern that they will choose not to do it.

There are a lot of people out there who are professional and would never do anything like that, but the problem is there are significant issues—I know and I am telling you—with too many people being paid cash. The more layers of bureaucracy you put on this the more the temptation is to say, "I am going to keep below the radar. I am just going to try wherever", unless there are going to be significant ways that HMRC or the Pensions Regulator are going to be able to find these people. If you do not register an as employer, the Pensions Regulator can't find you and that is the big concern. It really is a concern.

Q34 John Glen: I am still not clear, if I am honest, about what your principal objection is with respect to the extension of this provision. It seems to me that you are anxious about the responsibility of making a judgment about the pension, where the provider should come from, but you are also uncertain of the process that you need to go through and you are very uncomfortable with the bureaucracy of that. Is it the in-principle decision you are having to make on pension responsibilities or is it about the bureaucracy that is uncomfortable?

Sara Graff: I think there are different aspects and you have rightly mentioned them. I have my own issues about how I am going to manage this as a business but they are my personal issues and that has been scuppered by the fact that we have had to change course. That is not what I am here to discuss. It is part of the whole process and me being able to manage that in a cost effective way is important in order to be able to service my clients. But I am concerned about the general bureaucracy in that not everyone goes to a payroll agency. They really don't, because if you look at the number of employers around that cannot be the case. There are a lot of individuals using the HMRC PAYE tools to do their PAYE monthly and are quite capable of doing that. When you add an extra layer of all the regulations and about going through the process of registering and then informing NEST or whoever it is every month about the different payroll, you are just adding an extra layer into that.

My concern is about how this will be received and how the bureaucracy will be received by just how my clients behave. We have huge problems in getting our clients to do anything. We send letters; we send e-mails; we mark e-mails urgent; we say, "You cannot ignore this". The number of e-mails that I have saying, "Ignoring this is not an option" as far as auto-enrolment, and you hear nothing, and then basically going back to them and saying, "We cannot do any more. This is your responsibility as an employer". We are doing a lot of the Pensions Regulator's and the Government's job for them in trying to bring it to their attention and they are already in our system. They are already people that have bought into the fact that they need to do something, but when it comes down to it they are too busy or it is too complicated to focus on the particular issues that they need to do. I can only bring my own personal experience to this table.

Q35 John Glen: What you are really saying is that the Government have had unrealistic expectations of the level of engagement, even from the perception of people who are engaged with people like you in the first place?

Sara Graff: Yes, and it is not even knowing about it. It is actually dealing with it. It is one thing to know and to understand; it is another thing to process it.

Q36 Craig Mackinlay: I agree with a lot of what you have said absolutely. You are specialising in a specific industry, these are nannies and carers perhaps, and there is no tax deductibility. If you are a business you are going to buy into PAYE because you want deductibility for tax for the payments you are making, so you are in a very unique situation. I come at this that the Government want this and for all the good reasons that people do need a pension fund. I personally think it is for the Government to make it, facilitate it as easily as it possibly can. You deal with people who have come to you. They are in the system even though it is a struggle to get them there. There are going to be a lot out there who use RTI

Basic Tools, HMRC. That has its flaws but it wheezes and gets where it has to go. We will see what you feel, it is not what I feel. Do you think that RTI tool ought to have some bolt-on that will help smaller employers to deal with a lot of this?

Sara Graff: My suggested improvements are that the PAYE system and maybe NEST are somehow linked and that an individual or a small employer can choose if they want to go into NEST rather than choose their own pension elsewhere, which would obviously have different ramifications. What I have said is that when an employer registers for a PAYE scheme they have an option then to go into NEST. The employer effectively registers its employees through the payroll system when they file their RTI FSB returns, so the employees would already be in the system and they would then have the option to opt out or postpone at that level.

Also my other feeling is that HMRC collects the pension contributions in the same way that they do for student loan deductions. At the moment we have a system where in addition in PAYE and NI, student loan contributions are collected and they are paid over to the student loan company. To my mind, if this was an all-integrated system it would be an absolute assurance that all those small employers are going into the system and it would make everything much simpler.

As it stands at the moment, there is some sort of linking between the TPR and the HMRC but it is not perfect by any means. Although the TPR do get notification of new PAYE schemes being set up, they do not always know when the scheme ceases. There seems to be a delay. We have had all sorts of issues with various things. If they can do it with the TPR and if that process was tightened up and better, why can't they do it with NEST? Why can't the TPR and NEST be more linked as well? I thought that this might be quite a radical system and might require—but to my mind that would resolve the problem.

Chair: It would certainly with the issues that Aileen has been raising if it was like that. Very good. Thank you all very much. That was a great session. I was not quite sure when we started where it might go but you have given us a huge amount of thinking to do. I am grateful, Aileen, Sara and Katharine. Thank you.