



Work and Pensions Committee

Oral evidence: Pensions automatic enrolment

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Members present: Rt Hon Frank Field (Chair), Heidi Allen, Ms Karen Buck, Neil Coyle, John Glen, Richard Graham, Steve McCabe, Craig Mackinlay, Craig Williams

Questions 37 - 114

Examination of Witnesses

Witnesses: **Ian Cass**, Managing Director, Forum of Private Business, **Mike Cherry**, Policy Director, Federation of Small Businesses, and **James Lowman**, Chief Executive, Association of Convenience Stores, gave evidence.

Q37 Chair: Welcome. What I would like to do, James, starting with you, is ask you to identify yourself for the sake of the record, and then we will begin our questioning.

James Lowman: I am James Lowman. I am chief executive of the Association of Convenience Stores.

Ian Cass: My name is Ian Cass. I am the managing director of the Forum of Private Business.

Mike Cherry: Mike Cherry, policy director at the FSB.

Chair: Ian, do you think, when you speak you might be speak up for those of us who may not be able to hear you too well? Richard, might you begin please?

Q38 Richard Graham: Gentlemen, good morning. Pensions and auto-enrolment, for all of you and all your members, these things are a real challenge. Do you think that the communication, the letters and leaflets from the Pensions Regulator are clear and are they accessible enough to your members?

James Lowman: We should be fairly positive about the work that they have done. The communication is relatively clear. The challenge is probably for the businesses that do not have easy access to internet, particularly in rural areas—access to broadband. Wherever

they trade, our members often do business on their mobile phones. That is their access point. Again, efforts have been made there and the mobile access to those sites and the mobile presentation of those sites is good.

For those who can access it, and will access it, the challenge is—we were talking about it outside—that there is still a rump of businesses that are closed off from awareness of the compliance. I would not be critical of the overall approach they have taken.

Q39 Richard Graham: Are they clear also on the penalties for non-compliance? Do you think everybody is aware of the stick as well as the carrot?

James Lowman: The challenge is that the businesses that are going to comply are aware of the fines and the sanctions. The businesses that are not aware or are simply waiting until something happens to them rather than gripping the issue will not be aware. It is that small group who are hard to convert who are the challenge here.

Q40 Chair: James, might you tell us when you talked about the rump, how big is the rump we are talking about?

James Lowman: I am slightly guessing. Three years ago we did research of our members and 84% of them were aware of the rules coming in. So that suggests 16% maybe, and many of those will have become aware over that time. Therefore I am comfortable it is a relatively small minority. However, even with the 84% there is a difference between awareness and resolving to act to comply. I fear there may be some who meet those conditions who I would be concerned about as well.

Q41 Richard Graham: Ian, how about your members?

Ian Cass: By the very nature, if you have joined a membership organisation like any of ours here, they tend to be the proactive businesses. It is the non-proactive businesses, it is the people that are still there that have not been reached, either through ignorance or they are sitting there going, “It has not impacted on me yet, I will wait until it does,” and that is the danger in getting the message to those. The message has been quite good so far but do you need two tiers of message? First of all, you were communicating with those to get them aware, to get them working on this. There are some people who have not shifted so maybe it is time for that message to get a bit stronger. In terms of knowing what the penalties are for non-compliance maybe now is the time to be getting more of those stories out there, to move them into action, because that is what is required there because for whatever reason those people are not getting involved at the moment.

Chair: Richard, might Craig just come in?

Q42 Craig Mackinlay: Yes, concentrating on the penalties: I have seen the table of what they could be and they are pretty draconian. They would take a business to bankruptcy within about a fortnight. I am just wondering how much of a stick they are going to apply. This is a question we must put to the Pensions Regulator. It sounds quite soft. It will be a couple of steps until they come down with a stick and I would like some clarity at some time as to how they are proposing to implement the penalty, because they are very serious penalties.

Ian Cass: But it is getting that message over, isn't it, saying, "Here are some stories, here is what has happened so far to certain people." It is education, but the stick is the trigger to say, "If you do not take pro-action on this, this could happen to you. There are some real-life stories about how this is happening. You need to get enrolled in this and become engaged in it." It is that education because I am sure there are some people out there who are going, "Oh, this does not apply to us."

Q43 Craig Mackinlay: Have you heard of any slightly bigger employers that are already staging dates and are all in place but have got penalties?

Ian Cass: Looking at the figures, I think about 160 £400 fines were applied over about a three-month period. I think that was up until January. That is the message getting out to people and educating them that you need to move and take action on this. If you don't, you are not going to be left with a lot of choice. Those that have taken action have been able to do the right things, in the right way, to pick the right pension for their employees. The danger is those people that are just saying, "Oh, I'd better do something," probably won't have those options, and might not be making the best choices.

Q44 Richard Graham: Mike, can I come to you? You are rather in the spotlight there with the sun on you. Are you blinded?

Mike Cherry: I am quite at ease.

Q45 Richard Graham: Since you have had a bit longer to mull it over, would you like to add to your reply any recommendations that you have for the Government in terms of any further communication?

Also, at the risk of a plug for the event I did, can you say whether you think it would be useful for the FSB or other organisations to team up with MPs and do things on a constituency or county basis?

Mike Cherry: I believe I am correct in answering your last question first, that we have already held an event in Gloucestershire to highlight what businesses generally need to do. The FSB has been working very closely with the Pensions Regulator and we have been able to get them to change the website and make it a lot easier for micro businesses, in particular, in their last iteration of their website. That is proving to be very useful. We welcome the step-by-step guide that the Pensions Regulator has put into place as well as the calendar that is now there. So businesses, providing they go on to the site, are able to have a much clearer and easier understanding of what their duties may be.

The problem, as we have always highlighted, has been that Government has a role, as do everybody else, and the FSB is championing and pushing on this. We are almost being quite blunt in what we tell our members to do, that they need to act now to make sure that they understand what their staging date is and to ensure that they do comply.

While I am sure the Pensions Regulator does have a little bit of leeway, as far as penalties are concerned the legislation is quite explicit and, as Craig said, those penalties are very draconian indeed. They will very easily bankrupt a small business if they do not comply. Our push all along has been that everybody needs to be getting behind supporting and helping all small businesses to do what they need to do.

The problem that we are finding—and it is a recent survey FSB did—is that about 40%, first and foremost, find it very difficult to understand what they need to be doing. The Pensions Regulator website gives a little bit of clarity around that but it is a very difficult arena. You have the vast rump of businesses in the UK now facing auto-enrolment. There are other challenges facing them, as we know, around the national living wage and changes to dividends coming through in April. It is all coming at the same time and that is not helpful. This was one of our real concerns that if everything did clash around national minimum wage, let alone national living wage, at the same time as auto-enrolment came in, it would prove a massive challenge for the majority of small businesses.

Q46 Craig Mackinlay: Just turning to what choices small businesses might make. What experience have you had? Are most going for NEST or are they trying to access other pension providers or is cost being an issue? What is your experience of where people tend to be going as their first port of call?

Mike Cherry: Clearly the FSB has put in place its own scheme for its own members. There is a fee and charge associated with that. We believe it is one of the better schemes in the marketplace. If they do not want to have a fee imposed, then they can use NEST or they can use one of the other providers. The difficult thing again here, as we have always advocated, is that to make a small business make that choice, when they do not understand or do not know about pensions, is an incredibly difficult thing for the business to do. The business owner is in no way any different to their employees. In some ways their employees probably know better than the owner.

Q47 Craig Mackinlay: We examined in a previous session how a smaller payroll service or a firm of accountants would be in the driving seat—naturally one of their clients will say, “Well, what should I do, how do I do it?” There were worries about if a payroll service said, “Oh, go with NEST,” is there a liability there for almost suggesting some form of financial advice? But then of course a micro employer, if you went to an IFA, an IFA would turn his nose up and say, “What, a scheme of one? No, thank you very much”. So it is a very difficult situation. I am worried about liability for both the employer and advisers.

Mike Cherry: In answer to that question we are all worried about whether or not that is the right choice. There is no guarantee that at whatever time your employees, whether it is family issues, whether it is older or younger employees, whether that is the right choice for them, we will just have to wait and see. There is no guarantee around that, and that, again, is a concern for most people.

James Lowman: In answer to your first question, in our experience most people in our sector are going with NEST—most of the people we have spoken to. Coming back to your second question as to why, I think it is first about trust—it is the Government scheme—and it is the path of least resistance. But also people are terrified about being seen to provide advice, and if they provide advice, the rules around that and what they are able to do. It also helps saying to staff, “We are not making money from this. There is no kickback for us. There is no further advantage. We are just making available the simplest Government scheme.” That is quite attractive to small businesses. That is one of the reasons it is driving that.

Mike Cherry: I will just come back on one further point. It is important to recognise there are quite a large number of businesses who still do their payroll manually. They don't use software or an external provider: they do it in-house and that is done manually.

Q48 Craig Mackinlay: You are required to do RTI returns and that cannot be done manually anymore.

Mike Cherry: No, but there are still some that do it manually.

Q49 Chair: James, when you say members go for NEST, are they going to NEST because it is Government-run and therefore if it goes belly-up taxpayers will be asked to foot the bill?

James Lowman: That is less of a reason—it might be in their minds—it is more about simplicity. It takes away a choice in a way. Obviously it is a choice to use NEST but it feels like the easiest, simplest choice to make and they are less of an agent in that choice in a way. They are not saying, “We have done extensive research of all sorts of schemes that are available and we have come up with this one”. They recognise that to do that well is a large task; is one that comes with all sorts of responsibilities of making the right choice. Unless you happen to have a lot of financial expertise why would you go into that? Why would you do that? You would rather go the path of least resistance. For our members we do not have a scheme set up. We direct people to the government information. So NEST becomes a fairly natural port of call. For FPB and FSB members clearly there are schemes that are set up, so that might be the most natural place to go. But in our case we are seeing NEST—I should say in all of this we are doing a survey of members in May and after that we will ask these questions, so I might be proved to be wrong but I think we will find high levels of selection of NEST and we will send that to the Committee obviously.

Q50 Neil Coyle: Before going on to the contribution rate, I am intrigued at this rump. You are saying draconian powers are here, so what is it that typifies the rump? What kind of convenience stores or small businesses are they? Has the regulator's advertising been segmented sophisticatedly enough to make sure that they understand what is about to happen?

Ian Cass: The forum took a two-tiered approach. We got independent financial advice open for all members, for those that were being proactive. So it helped them to make the right decision. We have changed that now. We still offer that but then we started directing people as we got further through the process, and as we got further through the process and at the end a lot are going to NEST and also to providers like Smart Pension. But a lot of them are also relying on their accountants. I just did a quick straw poll. I spoke to 12 accountants in our rough area. None of them had received any specific, they say, information about auto-enrolment to pass on to their customers, and most of those are very small micro businesses.

When I asked them where they had got their information from they had got it from the RTI payroll software, whichever they subscribe to. The information was there as pop-ups and that is where they gathered their information, to pass it down to their members, a lot of who make up that rump. But it does not seem—and okay it is a very small sample of 12 local ones, but nothing had been aimed directly at them, so they say. That is anecdotal; it is not terribly scientific.

Q51 Chair: But, Ian, when you came in on James's earlier answer you said that all three of you were membership organisations and therefore in a sense you were self-selecting. James's comments about the size of the rump were about people who had opted into a membership organisation. To what extent—

James Lowman: Sorry, it wasn't that. It was a survey of all small businesses, not just our members.

Q52 Neil Coyle: Thank you for that. In other sessions people have talked about the contribution rate and whether it should be higher. If the Government does decide to increase the contribution rate beyond 8%, how could small and micro employers be better supported?

Mike Cherry: First and foremost you have an issue around that 8%. We all know that that is very unlikely to be enough or sufficient for anybody on low earnings to have something sensible for their retirement. While there is the review next year in 2017 of auto-enrolment, given the fact that things have now been pushed back a little bit, our concern is that that review may not harness some of the issues that will come up when the vast majority of small businesses now have to face auto-enrolment. We would advocate that it is delayed until you have enough evidence to understand what any subsequent issues may be over the next 12 to 18 months. It is undoubted that that amount will have to go up if we are to meaningfully provide as a country for what people will need as something sensible in their retirement.

How that affects small businesses: again, it will be an additional cost. It may be an additional cost or percentage to the employee as well. That will be a challenge that will have to be faced at some point, I have no doubt.

James Lowman: For our members to a large extent it is a pure cost issue. As I mentioned before, this comes in alongside national living wage, which is a significant increase. Last time we checked, the average wage of our members before the last minimum wage increase was £6.65, which is 15p above minimum wage. We can therefore assume that when the living wage at £7.20 comes in the average wage and assets will be very close to that. It would be fractionally above that.

So our members are being hit with that very significant cost, which is then set to rise over the coming years as well, up to £9—60% of average earnings—by 2020. So it then becomes a pure cost issue. Further increases in employee contributions, which is how that rise in 8% must be met, would lead them to have to take some mitigating action for those needs combined. What doesn't happen is there is a cost increase and all of a sudden every shop just shuts down. Clearly it doesn't happen; people take mitigating action; they make strategies to try to deal with it. The most common ones are that they delay business investment because the return on the investment is no longer there, or they just don't have the money to do it anymore; they reduce staff hours or they squeeze their pay structures so people who are earning a bit more than that, because they are supervisors or deputy managers, don't get pay increases, or they bring them back down, or they get rid of that tranche of more senior roles.

There are some serious implications of those sorts of cost increases, which are coming alongside other increases. Wage costs are the biggest costs faced by the vast majority of convenience stores and businesses generally.

Q53 Craig Mackinlay: You make a very good point, James. Particularly farmers are writing to me with extreme concerns. But going above those that will be within the national living wage increases—people just above that—do you think a lot of employers will see the increase in percentage rate for auto-enrolment and say, “Well, we are just not going to do a salary increase this year; the salary increase is the extra that I have to pay for you as my proportion of the auto-enrolment”? Do you think that is likely to happen?

James Lowman: It is possible. Of the two this year—those two cost burdens—auto-enrolment and living wage, living wage is by far the greatest. So everything I say is probably more attributable to that than to auto-enrolment, but it is part of the same picture.

It is also complicated by how much part-time working there is in our sector. Looking at someone earning national living wage, if they worked less than 15 hours a week on that wage they would be under the £5,826 lower level—they would not be subject to this. You have to work 26 hours or more to be over the £10,000 auto-enrolment limit. So not all staff would be into auto-enrolment; to many it would not apply at all. About 20% of staff in our sector would work 15 hours a week or less, or around that, and so would not be covered by it. There are then those working between 15 and 26 hours a week. Then you are probably talking about just under half who are earning £10,000 a year or more and therefore auto-enrol. What you might see is that some of those have to change. You won’t see a change overnight where suddenly everyone is working less than 15 hours a week so they are under the lower level. That is not going to happen because there are so many other factors, but over time you might see a little bit of trimming off of hours and so on, so people are below those thresholds. That might be driven by the employer or by the employee because it relates to their own circumstances, to their own tax credits, their own family circumstances and so on. There will be lots of changes and it is hard to attribute all of those to auto-enrolment.

Q54 Craig Mackinlay: So, for someone earning £12 an hour, say—I am trying to get to the crux of this—do you think an employer will say, “Well, we now have to do 2% employer contribution, there isn’t going to be a pay rise this year”?

James Lowman: That is quite possible.

Q55 Craig Mackinlay: That links in with some other things that are around the corner on changes to pension tax relief. I am very worried that if there is a freeze in wages it could be deemed to be a salary sacrifice by HMRC, and would that then be benefit in kind? It is quite a complication opening up here.

James Lowman: Yes.

Ian Cass: The only other thing I would add to that is, you might also see growth in freelancers, self-employed people. We are seeing evidence of that at the moment just in the helpline questions that are coming through to our internal helpline. There has been growth in that whole area of the self-employed and employees taking that route rather than employing people directly.

Q56 Richard Graham: Clearly Craig’s line of questioning was designed to prise out a little bit whether small businesses were feeling a bit beaten up by the increases to their costs

that are going to come from the auto-enrolment. Clearly also, all businesses see the benefits to their employees, and ultimately businesses are an investment in people. In terms of the point that Mike rightly raised earlier, which is about the fact that the 8% is going to have to rise, if we are going to provide some form of a really helpful savings pool for individuals: Mike, do you think that the Enterprise Allowance, which has, if I am right, gone up 50% to £3,000, is deliberately intended to help businesses pay for the increased salary costs of the living wage? Do you think that that is a helpful tool for offsetting future increases to the workplace pension that might be required by Government?

Mike Cherry: It is one of the most useful and simplest tools Government has available to help small employers, in particular. We welcome obviously the increase from £2,000 to £3,000 for those who do employ people on their employer's National Insurance contributions. Clearly, we have always said that that could be increased, of course, to help offset any additional costs.

To give some statistics that we have to Craig's question, 20% of members in our survey have either frozen or reduced wages at the moment, 70% have absorbed any likely auto-enrolment costs, but some are also reducing staff hours or taking people off because they cannot get increases through to their own customers. Differentials very clearly play a role here and they are, in some cases, having to be reduced.

There are other tools. One of the big problems, as I highlighted earlier, is that you cannot look now at auto-enrolment in isolation. You have to look at all the other additional costs that Government is forcing down on to businesses. One of the biggest concerns we do have is around the cost and the administrative burden that auto-enrolment will impose on businesses. At the moment it is the time, not just in reading but also in understanding before you implement, and our survey shows that the cost of that is about £700. If you have software there is a likely increase to that of up to £300.

Q57 Richard Graham: There is some suggestion from the payroll providers that some of them are providing this at a very low cost, partly as a marketing tool in order to attract more business, so that over time, and perhaps with people fishing around a bit there, that cost can come down. Of course the other point, presumably, is that you are right to highlight that there are some increased costs. That will always be the case if you are going to provide employees with a decent savings mechanism. But there are other things, like the hefty reduction in corporate tax over the last few years from whatever it was—28%—to now 19%, which also have to be taken into consideration. So overall, my question is whether you think that small businesses are broadly able to thrive in this environment, balancing both the benefits that have been introduced and the increased costs, or whether you have real concerns, real ones rather than—

Mike Cherry: No, we have real ones, because I don't think we know just what the impact of national living wage is going to be. It is a 12% increase when you take into account the national minimum wage from last October plus the increase in this April to £7.20 and further increases of 6% year on year. We do not know the answer to that in certain sectors, as we know; whether it will be hospitality, whether it be care homes and others. There is obviously an impact on the public sector around the care home issue, in particular.

These are genuine concerns. It is not scaremongering in anyway because we just don't know what the outcome for many of our members is going to be. We won't know that for a further six months or more.

Q58 John Glen: Craig has covered my question substantively. James and Mike have responded on this issue of the changing behaviour of employers in terms of deferring pay rises and paying cash to avoid auto-enrolment.

Ian, do you have any observations about your members around what are the likely behavioural changes potentially among employees in terms of saying, "If we are going to have to pay for pensions we are not going to give you a pay rise"? I recognise going forward there is an uncertainty, depending on the state of the economy and all the other changes, but what is the evidence, the best estimate you can give now, of behaviour likely in the near future and in the present time?

Ian Cass: Just to expand a little bit on what Mike said, the cost to the business in pounds you can put; it is the opportunity cost that is the killer. It is the time that these things take. It is against a raft of a whole load of other things—tax going online, quarterly tax returns, living wage, auto-enrolment, dividends changes. As a small business guy I start off a business because I have a desire, a passion, a belief in that. Most of these smaller guys are owner/operators, and six, eight months in, this stuff starts to appear, and by its very nature you then try to do it yourself. I have been there. So right, I will try to do it. If I don't have the knowledge, even the simplest of processes can appear very difficult, so I am trying to cope with all of this stuff. Proactive help is less there. You try to get on the telephone to ask somebody a question, that is difficult; yes, you can go on a website but you have to know what you are looking for.

For me, if you want businesses to be proactive you have to free up the time for them. The real cost to me in this, and it comes through loud and clear from my members, is this is increasingly taking more and more of my time because I try to do it myself, then if I cannot do it I will find an expert that I will pass it on to and, yes, that will have a financial impact on the business.

Q59 John Glen: But your sense is, and picking up Mike's point about 70% of his members saying they absorb the cost, that it is the frustration around the complexity and range of administrative burdens and understanding it rather than a desire to say, "Financially I am now going to reduce pay." So it is the former rather than the latter, is it?

Ian Cass: It is more about, "Free me up the time to deal with this." That is against a background of a whole raft of things at the moment of which auto-enrolment is one. The perception is, "Crikey, we really are starting to get heavily burdened down with that," and that does worry me. That really does.

Q60 John Glen: James, Mike, is there anything else on your members in terms of salary reductions?

Mike Cherry: There is an override here, in that the vast majority of businesses want to comply. So making the complexity much easier and simpler for businesses, first, to understand what they need to do, and then how to seek help and be able to do it is absolutely critical here, and we all need to get behind that.

James Lowman: The auto-enrolment costs are small compared to living wage costs and those are things our members are firstly focused on. In terms of some of the mitigating measures the Government is taking, the Enterprise Allowance is an effective way of compensating people for costs of auto-enrolment. It works well there. But it does not work so well if you have a number of stores, for example, if you are a larger business. The living wage far outweighs the benefit of the Enterprise Allowance. Other things come in as well: you mentioned the living wage, and you mentioned corporation tax and other tax burdens. The key one for our members is business rates, and the Government removing the £1,500 Business Rates Retail Relief Scheme will have a very significant impact on our sector. It is a balance of all those different costs. Auto-enrolment features as part of that equation.

Q61 Richard Graham: Could you repeat the point on business rates?

James Lowman: Yes. For the financial year of 2014-15, the Government introduced a Business Rates Retail Relief Scheme of £1,000 that businesses could claim back from their business rates bill. For the last financial year, the current financial year that is ending now, that rate went up to £1,500. The autumn financial statement did not include an announcement that that would be renewed. We hope that the Budget might change that, but as it stands our members will be facing £1,500 more than they paid last year.

Q62 Richard Graham: Yes. You want that relief to be retained?

James Lowman: To be retained and, frankly, increased.

Mike Cherry: Can I clarify that? That is due to be removed in 2017 now. It was extended until 2017.

Chair: Then that will be at the same time as the national living wage coming in?

Mike Cherry: Correct.

Craig Mackinlay: Sorry to have stomped over my friend's question.

John Glen: That is all right. We got the information.

Q63 Craig Mackinlay: We did. Ian, you mention that some of your members have been thinking about how they can get people self-employed within their businesses, if there is a valid way they can have more self-employed people rather than fully employed. Do you think this could precipitate, for the very small employer, a rise in the hidden economy, the cash economy, so that people are completely outside of employment and they are just paid cash?

Ian Cass: It has always been there, hasn't it? I suppose, yes, there is the potential for that.

Q64 Craig Mackinlay: Do you think this is enough to tip more people into it, or not really?

Ian Cass: That is a leading question. It is, but that is one of the reasons I am concerned when we were talking about that big picture, with auto-enrolment being part of it. I think that is a potential danger.

Q65 Heidi Allen: I am interested in hearing from you about how you think employers are going to help themselves. For example, in our business my husband has decided to go and work it out for himself, and he has found a local pension provider, and he is cracking on with it. We have talked about accountants being a source of knowledge. Is that the general feeling, that the payroll providers will be doing most of this for the employers? What is your sense that some are trying to manage themselves as opposed to using their accountants, typically?

Mike Cherry: Some businesses will definitely do it themselves. They will use NEST or they will use the FSB scheme if they are a member of the FSB, perhaps. Some accountants do have their own scheme that they offer, I believe. Some will not. Some payroll providers I would imagine also have a scheme that they could possibly offer, or at least know IFAs they can point businesses to. The important thing, surely, is to make all businesses aware of what they need to be doing. We all need to be communicating this, so businesses get the message to do it before it is too late. Otherwise, coming back to James's point about that rump, the rump is those businesses that are not members of member organisations. That rump of businesses is a very, very significant number of businesses. You are into hundreds of thousands who have to get this right, who have to comply, and we need to be giving them the help and the communication to do that.

Q66 Heidi Allen: Is it your sense then that it is that bulk of businesses that are going to be the ones most bewildered by this?

Mike Cherry: It is not just those. Of our members, as I said earlier, around 40% are finding it a real struggle to understand what they have to do to comply, despite how much easier the Pensions Regulator website now is, and everything else around this. It is a complex issue, and it is an issue that they have very, very little knowledge of themselves.

Q67 Heidi Allen: Does either of you two want to answer that?

James Lowman: Just a little comment. I agree with all that. About a year ago the Government introduced this ban on the display of tobacco products in store. There was a framework of requirements for that, and small stores had three years more than large stores to comply with that, yet in the two weeks beforehand we took literally thousands of calls from retailers who were apparently unaware and had no idea where to start to comply, so we tried to help them through that. We had some very good guidance out there; the problem was not the quality of guidance. As in this case, the problem is not quality of guidance, it is about communication, and awareness, and people making that step from being broadly aware to taking steps to comply.

My wife owns a small business as well, and I was talking to her about how she is going to comply. She is going to use NEST and through the existing payroll systems, the existing outsource payroll, so essentially do it themselves, but using that outsource. I think that would be pretty typical of a lot of our members, and some of those who have accountants might outsource it to them as well. The key thought across our membership is probably less use of IFAs and third-party solutions in terms of identifying providers, for the reasons that I said earlier: first, the path of least resistance feels like it might be NEST, and also the sense that I don't want my staff thinking that I am getting some benefit out of this. If I

go through to NEST that is the simplest thing, and it feels like there is more trust from staff associated with that.

Q68 Heidi Allen: Okay. What can we do better around communication then? I think it was Ian who mentioned about accountants helping themselves and finding stuff out. Should we be communicating at that level as well? Are there other audiences that we are not thinking about that we should be communicating to?

Ian Cass: To answer your previous question, about 4% of our members have not done anything about auto-enrolment and we are targeting those. I think our number is quite low; I would imagine the rump that we are talking about is quite a bit higher. For me, I would be looking at really aiming communication at the accountants and at bookkeepers as well, because the bookkeepers quite often have that relationship where they are dealing with the—this will not be the case in all—yes, some doing it themselves, as Mike said—but the bookkeepers who are regularly doing the books on a quarterly basis before it goes to the accountant at the end of the year. I think some good, simple education aimed at them would certainly help.

Q69 Heidi Allen: Just a final question: if it gets to the eleventh hour and suddenly a lot of these businesses realise two days before, is the capacity out there? Whether it is through IFAs or through payroll providers, is the capacity there?

Mike Cherry: I think that is an unknown question. I would hope there is the capacity there. The problem is the time, if you find that a very large number of businesses leave it to that last minute they just won't be able to comply in time and could face penalties.

Q70 Chair: They are the group, are they not, who will be least involved with other links?

James Lowman: Yes, to some extent. For a lot of these businesses accountants are not part of the equation. I think many businesses will use the three-month delay as well, as they find themselves in that position.

Q71 Craig Williams: I think I have the flavour of the answer, but I just wanted to put it very directly to you. For those outside of members groups, the people who are doing this auto-enrolment alone, is the process straightforward? The second question: in terms of compliance with these regulations, as you were pointing out with the tobacco, the labelling, by their very nature are these people going to leave it to the last minute? Is the process straightforward, and then are we going after a caucus, a group of people, that will by their nature leave it to the last minute?

James Lowman: That group, the hard to get to group, yes, they will, because what is the motivator for that? In the case of the tobacco display ban, that would be the prospect of trading standards officers coming around and taking enforcement action. I think that while we do not want to promote draconian enforcement that may be the thing that ultimately motivates people to get over the line. Obviously they should already have made the first steps to compliance by now. Yes, I think there is a mixture of stick and carrot, and it all comes down to good communication about what ultimately will motivate them to do that. Of course, if I had an answer my job would be much simpler. Motivating small businesses

to do things to comply is challenging. But I think there will be, as they pick up on more general publicity and they see things that are not just targeted at them, that hopefully will be the point where they push over the line and comply.

Q72 Craig Williams: Once they are motivated, in your opinion, is it a straightforward process?

James Lowman: I think it is possible, yes. We talk about opportunity cost, the time, bureaucracy, but yes, I do think it is possible. Yes.

Q73 Richard Graham: Just one very small thing, Chairman, if I might. If the situation does get to an HMRC annual tax return-type, last minute essay crisis, what is your view, in a couple of words, on the best way around that? Is there a simple solution in terms of at the last minute simply extending the deadline by a month to try to make sure that everybody as far as possible gets over the line? James?

James Lowman: I am always nervous about that, because I think then if there is any doubt over the clarity of a deadline that will lead to more uncertainty, so I would not propose that. There is already provision for a three-month delay for bringing people in, so the first steps for compliance are relatively straightforward and not that time-consuming. I think it is maybe trying to put pressure on businesses to undertake that first step to get into the system. I hope there is a simpler way around it than that.

Mike Cherry: I think extending it is not the right way to go. I think we all need to be making sure that businesses have as much information as they need to be able to comply on time. Let us not forget businesses do it when they have to. There are a myriad other things that they have to do in running their business, in making the sales, in everything else that goes with a business, and they will do it when they have to. If that means that they have to at the last minute, I just hope that there is the capacity there to cope.

Ian Cass: I think the question is: why are these people not engaging? There may be some who just don't think it applies to them or haven't got the message yet. Really it is a case of asking the question: why aren't we reaching them at the moment? Why isn't the message resonating? Is there way of doing that better at this time, taking different approaches, maybe, than we have before, giving a different message, and thinking about reaching those people who, for whatever reason, think, "This does not apply to me"? If there is a lack of information, if there is a void, they will fill it. Small businesses will quite often fill it with anecdotal stuff they have heard from somebody else, and it is incorrect. It is about getting the correct information to those people and thinking about how we do that in a clever way.

Q74 Craig Mackinlay: Very briefly, probably for James, I would have thought: the basic tools that HMRC provide for small businesses to do their RTI returns, do you have a feel for how many of your members use that because they are so very, very small?

James Lowman: That is a very good question. I do not have a feel for an answer for that question. We will look into it and provide the answer for you.

Chair: Brilliant session, thank you very much. You have given us lots to think about, as you probably intended. Thank you very much.

Examination of Witnesses

Witnesses: **Yvonne Braun**, Director, Long Term Savings Policy, Association of British Insurers, **David Fairs**, Chairman, Association of Consulting Actuaries, **Tim Sharp**, Pensions Policy Officer, Trades Union Congress, and **Thomas Brooks**, Senior Policy Researcher, Citizens Advice, gave evidence.

Q75 Chair: Great. Might I welcome you and thank you for coming? Thomas, might I ask you to begin by identifying yourself, then I will go along the panel, and then we will open with Karen.

Thomas Brooks: I am Thomas Brooks, and I lead the pension research at Citizens Advice.

Yvonne Braun: I am Yvonne Braun. I am the Director of Policy, Long Term Savings and Protection at the Association of British Insurers, which is the leading trade party for long-term savings providers.

David Fairs: David Fairs, a partner at KPMG and Chairman of the Association of Consulting Actuaries.

Tim Sharp: Tim Sharp, I am a policy officer at the TUC, leading on pensions and investment work.

Q76 Ms Buck: Could I start by asking you a question or two about self-employment? We know that the self-employed are in a different category in terms of auto-enrolment. We also know that they are able to join up through NEST. Could you start possibly, CAB, by giving us a very quick view of what you think the current situation is with regards to self-employment and pensions, given the trends we have seen in self-employment over the last few years?

Thomas Brooks: Yes. I think it is definitely fair to say that self-employment is no longer a niche enterprise in the labour market. Last week's figures from the ONS show it has hit an all-time high in the UK. Over the last decade we have seen more than a million extra people become self-employed. At Citizens Advice we saw 150,000 self-employed people, and we have done some research to better understand their lives. One of the key findings of that research is there really is chronic under saving for pensions among the self-employed. While there has been an extra million people becoming self-employed in the last decade, there are half a million fewer people saving for pensions now. Fewer than one in five people are actively saving into a pension, so one third is likely to be saving for their retirement as their employee counterparts. It is sometimes suggested that self-employed people are saving in other areas, in more flexible pots, for their retirement, but our research shows they are less likely to be saving or have average lower savings in ICEs, and they have average lower savings in bank accounts. In total we know that 6 in 10 self-employed people, that is over 2.5 million people, live in a household with no private pension savings at all. We really are looking at a ticking time bomb in terms of this group of people who are not provided for.

Q77 Ms Buck: That is very helpful. Is anyone else able to tell us anything more about the current trends of both self-employment and savings and pensions among the self-

employed in terms of gender balance and of age profile? Are the self-employed younger, are they older, does it reflect something else that is happening in the labour market, and what does that tell us, if anything, about pensions?

Yvonne Braun: The thing that I would add to the statistics that Tom has already provided is that the numbers of the self-employed are also rising because of the shifts we are seeing around retirement. As you will know, there is a huge shift from the cliff-edge retirement to part-time jobs, second careers, but also self-employment. The Prince's Trust, I think, published some statistics that said that almost 20% of workers between 50 and 64 are self-employed.¹ It is a huge and growing demographic, and we think that it is really important that these workers don't lose out because they are not automatically enrolled by their employer. Of course, one of the things, and one of the big elephants in the room in terms of pension policy, is how are they incentivised? We think the tax incentive must be much, much clearer. It should be a flat rate of pension tax relief framed as a saver's bonus, so that it is very clear to people what they are getting from the Government as an incentive.

The other thing that we would add in terms of what do you do about it is we should leverage the guidance services much more. Of course we have the Pension Advisory Service, we have Pension Wise, but we think much like in the NHS where you have a midlife health check, there should be almost like a midlife wealth check in preparation for retirement, and it should be part of that.

Q78 Ms Buck: Is the implication of what you are saying that the trend in self-employed is weighted towards an older group at the moment? That seems to me to be what you are saying. If that reflects what the CAB are saying in terms of under-provision, the pension savings problem for the self-employed is something that is going to hit us earlier rather than later. Would that be a correct analysis?

Thomas Brooks: It would be a slow burner, but there is definitely potential, because we have seen a recent rise in older self-employed people.

Q79 Ms Buck: The corollary would be that if the growth in self-employment is among older people, and they are saving less and have built up a smaller pension, that pressure point is going to come in the next decade or so, rather than if it was weighted towards younger people.

Yvonne Braun: I think it is part of the issue. I was not saying that the entire growth in self-employed is in older people, but that is an important demographic we need to think about.

Q80 Ms Buck: Do we know anything about gender analysis in this? Is this something that is affecting women more than men, or does it make no difference?

Thomas Brooks: In our research it is affecting women slightly more, but it is not the strongest area in pensions or labour market policy. It is not the strongest of effects, but there is definitely a slightly bigger problem for women.

¹ This research was carried out by the Prince's Initiative for Mature Enterprise

Q81 Neil Coyle: The 150,000 figure you mentioned, was that people who came in to Citizens Advice, or was that a survey?

Thomas Brooks: That is who came to get advice from us.

Q82 Neil Coyle: What are they coming to see you for? Is it primarily financial and debt advice to begin with? Because if there is already a problem, then trying to squeeze more out of them is going to be riskier.

Thomas Brooks: Yes, people come to us when they have any sort of problem. We don't give business advice, so often it is around their personal issues. It could be about housing, or it could be about debt. There is a grey area between a business and their personal finances if they are self-employed, because their debt might be a result of their business. Yes, I think debt is the most common one. There are also lots of complexities with benefits as well for self-employed people. We are seeing changes coming ahead with universal credit and the minimum income floor. I think debt and welfare are the two biggest areas that we see people for.

Q83 Ms Buck: What is the top thing, the top idea for trying to address this problem and deal with pension savings for self-employed?

Thomas Brooks: If I can give two, just to echo Yvonne's point earlier, we know that 70% of self-employed people don't understand pension tax relief. We know that lots of people we have spoken to are put off saving into a pension because they believe wrongly that they have to pay the same amount into a pension every month, and because they have fluctuating incomes they are worried they cannot keep up with payments. Better information and access to guidance is really important for people who are self-employed, because they don't have an employer or an HR team to tell them about the pension.

The second thing is an automatic enrolment option for self-employed people. We know that when most employees start a job is when they think about their pension, and they will decide then how much to pay in, and then they will probably forget about it for a while. If you set up as self-employed you are thinking about business plans, and accounting, and finding clients. It is really the last thing on your mind; it is not an urgent thing. We know that there is a really acute problem with inertia for self-employed people. We think an automatic enrolment option through self-assessment—so each year you would be asked to opt in or out of pension contributions alongside your tax—would be a good way to address this.

Q84 Ms Buck: Any other ideas?

David Fairs: The Tax Incentivised Savings Association has put forward an idea of having matching contributions for self-employed people where those earnings are up to £30,000, because the self-employed covers quite a wide range of individuals. I am a self-employed individual myself, but I would not necessarily think I would be somebody who needs incentivising to save.

Ms Buck: We would hope not, really.

Q85 Chair: We will see whether the Chancellor agrees with that in his Budget, won't we? Tim, do you want to come in on that at all?

Tim Sharp: I think it is worth noting that the nature of the self-employed is changing. It is not so much people necessarily setting up businesses. A lot of it is a big rise in sub-contractors, and so the group of people we are talking about are often very similar to the low/middle income earners that we are concerned to scoop up with auto-enrolment. I think trying to harness the lessons from auto-enrolment, such as inertia, maybe opting out in your self-assessment form, and opting in might be a nudge towards the right direction. I think very much it is right to prioritise bringing this group into the pension system.

Q86 Steve McCabe: It seems almost inconceivable that in the 21st century we could have a pensions policy that largely excluded the public sector. If it is true that by 2020 we are going to have more self-employed than public sector workers, doesn't that mean there is an urgent need for the Government to look at this group in particular?

Thomas Brooks: Yes, I would completely agree. We understand why they were excluded initially, because there were more complexities, and it was not part of the tripartite deal between employers and employees. I think the previous session talked about how maybe the 2017 review is too soon to learn some of the lessons for increasing contributions, but that would be a really good time, I think, to look at how to bring in self-employed now we have it up and running for employees. We have 4.6 million people who are not eligible, so how can we bring them in as a matter of urgency?

Chair: David, do you have anything to add on this question?

David Fairs: I agree with the previous speaker, I think it is something that needs to be looked at.

Q87 Craig Mackinlay: Yes, it is an interesting point. In my previous life I was a partner in a firm of chartered accountants. I think for many self-employed, your builders and your plumbers, pension provision is pretty low down their list of concerns, especially if their income is sub £20,000. I was trying to think of elegant solutions to these problems, and the only one I can think of would be an addition to Class 4 NIC, and that becomes a bit of your pot. I think everybody knows you can get a pension, but it is making them do it. I think auto-enrolment for employees is going to work to make them do it, and I think that is all to the good. But for the self-employed, I cannot see a way of getting them in the system beyond an addition to Class 4 NIC. I wonder if you have any thoughts on this. Probably David; you pay Class 4 NIC I know.

David Fairs: I think either the TISA initiative or something like that would be a good step forward.

Q88 Chair: It is quite an interesting development, isn't it, on the National Insurance front. Craig and Richard were probing us in our previous session just before you came on the stand, so to speak, but it does offer, does it not, an institution by which you could collect, and you could collect it for other purposes than what you normally collected the National Insurance—

Craig Mackinlay: Yes. The trouble with the HMRC is all that extra administration and I think the answer would be no.

Chair: Sorry, we are having a discussion. Sorry, we should be having it with you.

Thomas Brooks: The NTS is currently conducting a review on self-employed people, and they are looking at scrapping Class 2 to try to simplify it. It may be they could look at that as part of the review, or it may be just having it separate on your tax return, “Here is how much tax you paid, and here is how much National Insurance, and do you want to opt out of this contribution at this level?” which would go into a NEST account or another similar—so it could be outside the National Insurance system.

Chair: Craig, the question is with you anyway.

Q89 Craig Mackinlay: Yes, it is indeed. Yvonne, you are the one more likely to have modelled these type of things. For somebody on a fairly meagre salary, but into the threshold of being in the auto-enrolment system, do we have any idea of whether the 8% that it will become in time, the mixture between employer and employee, will make any significant pension portfolio over time? Do you have any feel as to what the underlying investments are in NEST’s investment strategy? Have you done any formulation of what sort of pot someone earning £15,000 equivalent, or £20,000 over their 30 years, might get?

Yvonne Braun: I would have to go back and give you the figures.

Q90 Craig Mackinlay: What I am trying to ask is: is 8% going to be enough to make anything meaningful?

Yvonne Braun: Yes, to respond to the broader question, the DWP did a scenario analysis of future pension incomes in 2014 and what they found was that even with automatic enrolment fully complete there is still going to be a very significant undersaving. About 11 or 12 million people will be undersaving and that is particularly acute in the income band between £22,000 and £52,000 a year so very much middle-income earners and that is why I think there is a lot of discussion around how you could get to a better place, how you could ensure that contribution rates are going up. We certainly think that the contribution rate and the adequacy of the contribution rate should be part of the automatic enrolment review in 2017 and that should look at what sort of mechanisms you could use.

Of course you might say the statutory minimum should go up but we are very conscious that employers are subject to quite a lot of costs, not least the national living wage. But there is also auto-escalation which worked very well in the United States where basically part of somebody’s salary increase would go to the pension so they don’t feel it when more of their salary is going into the pension and things like that, so we are very keen to see that being properly explored as part of the review.

Q91 Craig Mackinlay: We discussed it a little bit yesterday and it is good to see you again. Salary sacrifice that could be called, could it not? Discussions we had yesterday about pension tax relief: I am worried that HMRC may say that is some sort of benefit in kind because you have taken an intentional salary sacrifice, so that adds to the pot of complication in my mind.

Yvonne Braun: Indeed it does. I think salary sacrifice is quite difficult to detect, which is probably why so far it has not been tackled, but we should not look at it only in a negative way. If you take matching contributions by employers they fulfil a very valuable function because there are a lot of schemes that are set up in such a way that basically the employer will match your contribution up to a certain percentage and people then go up to that percentage and that means a lot of people get a lot more than they would get under the statutory minimum. So, I think it should not necessarily be looked at as a negative.

Q92 Craig Mackinlay: You said those were 2014 DWP figures.

Yvonne Braun: Yes.

Q93 Craig Mackinlay: I have not seen those. What were the ranges of expectation of pension within that?

Yvonne Braun: They are looking at the Turner replacement rate. I think that is two-thirds of salary.

Q94 Craig Williams: Can I ask you very specifically about the current earnings threshold, £10,000, and whether you think that is suitable? I do not know who wants to kick off.

David Fairs: I will kick off on that. Just picking up on your point as well, the Association of Consulting Actuaries put forward two suggestions. The first was obviously the threshold is there so that once you go over the £5,800 you do not end up with trivial amounts of contribution going into pensions. Our suggestion is that the £5,800 lower limit should be removed so that all earnings count for auto-enrolment and that enables the threshold to be reduced to £5,000 or £6,000. That simplifies the administration and helps the lowest paid, but also brings in much more part-time employees and particularly women into auto-enrolment to start saving for retirement. From the research we have done it is likely to be those that have not saved previously, who have had different patterns of employment, not always being in full-time employment, who are going to be caught by that. We think that is a particularly good suggestion in terms of helping the low-paid and particularly women.

Our other suggestion was that auto-enrolment contributions increase by 1% every two years starting from 2020 and building up to an ultimate contribution rate of 16%. 15% to 16% is the number the Pension Policy Institute has suggested is a reasonable level of contribution. I think following the introduction of freedom and choice last year there is a wide variety of what people want in retirement. Some want a higher level of income; some want to retire earlier and so on so it is very hard to say what the right number is but to our mind having a stepped increase in that way gets people to a sort of contribution level that will build up meaningful retirement pots so that when people get to an age over 55 they have a reasonable choice of do I want to retire early, do I want to top up my earnings? The challenge is if we do not get the contribution levels up then people do not have those choices when they get to that point in life.

Our suggestion is the Government flags those 1% increases every two years from 2018 so that employers and individuals can budget for those increases. To my mind it is sudden

expenses that create most problems but small increases that are flagged well in advance can be much more easily budgeted for.

Tim Sharp: These issues raised just now are, why we think the 2017 review is so important, the need to build on the momentum we have had from the success of auto-enrolment and fill-in, how to capture those people who are basically slipping through the net currently and help to get on a path towards adequate contribution rates. So, we are particularly worried about the position of women under auto-enrolment at the moment. Of 13 million employed women, 4 million earn less than the £10,000 earnings threshold, and women are far more likely to work part-time, far more likely to be in low-skilled work, so we would advocate at least employer contributions from the first pound of earnings as a way of bringing those people into the system and to show there is not just an effective means of bringing men in traditional full-time employment into the system and that it works for other workers as well.

An important starting point touched on was the system of band earnings. That adds a complication for business but it also almost flatters how the system works at the moment. If you are on £10,000 or just over the earnings threshold your contribution is calculated on only £4,000 of income. I worry that lots of workers who are getting pensions for the first time now think they have a pension. This is fine, I am doing the right thing, money is going aside, and they are going to get to retirement and there will be nothing, nowhere near enough for them to live on. So, I am worried again that we are potentially undermining trust in the system just as we are building it up again.

What was interesting in the earlier session was there is a sense that most people in business and on the employer side, in the pensions industry, understand there is a strong case for moving on from band earnings. It is a case of when we do it and what time scales, giving time for businesses to plan, giving time for workers, employers to discuss within the context of pay rises. It is a really good opportunity with the 2017 review in particular to put this in motion.

Yvonne Braun: I think the Making Automatic Enrolment Work review in 2010 looked at thresholds and I think the 2017 review should do the same. We have supported broadly the £10,000 threshold because the replacement rate is relatively good for people at that level through the state pension. But I think it has to be part of the considerations of the review in 2017 and in particular I think we should look at the situation of women, particularly women with several part-time jobs, which individually may not be over the threshold but collectively will be and it is not right that they are losing out.

Thomas Brooks: The £10,000 trigger point increased quite rapidly because of the personal tax allowance changes we have had so maybe it increased quicker than we expected. I would agree with what has been said that the counter-argument has always been replacement rates. With the new single-tier pension if you can expect over £8,000 a year does it make sense to be putting money aside if your income is £10,000 a year? We see two compelling reasons why it may be worth reviewing this and bringing more people in. As Tim said, women are twice as likely to be excluded from automatic enrolment as men. There are about 500,000 women lurking just below £10,000 at the moment who are not being automatically enrolled.

The second part of this we see lots of people at Citizens Advice who are working part-time temporarily so they might be earning £8,000 or £9,000 a year and if they were earning that in perpetuity for their whole career it would not probably make sense to save but if they are having child care or caring responsibilities, if they are out of full-time work for four or five years it probably does make sense to bring them back in and talk to them to get their pension ticking over for that time.

Q95 Heidi Allen: In the last few minutes we have touched on fears about whether the 8% is enough; public sector workers; women; people earning under £10,000. Are there any particular groups of people that we have not mentioned who are least likely to benefit from better pension savings because of auto-enrolment?

David Fairs: I think we touched on the self-employed, those working part-time and those working in multiple jobs. I think we have to be a little bit careful that sometimes we look at theoretical contribution rates and we say if you are in employment all your life and you have been making savings all your life this is the sort of contribution rate that is adequate. Obviously there is a lot of debate around the increase in state pension age and how that is impacting women of particular ages. So, while in theory it does not necessarily make sense for those women to have additional savings because once they get to state retirement age they will have an adequate pension, that is not to say that if they saved more through a pension scheme they may be able to retire earlier and perhaps meet their previous expectations. I think sometimes we get carried away with actuarial, theoretical right-contribution rates but real life is not always quite the same as the assumptions.

Q96 Chair: Yvonne, can I link what you said to points that Craig and Richard made earlier about using our National Insurance machinery. Yvonne, you were saying that maybe particularly women workers could have a number of jobs that would take them over the threshold but any single job would not. Therefore if I was the employer I would be thinking, “What is it to do with me?” Whereas in fact if you were thinking about the total pay of the person you could pick them up much more easily through the National Insurance system, could you not? Because they have a cumulative sum rather than thinking it is the last employer or the first employer’s responsibility to enrol them on earnings that they would not necessarily be paying. Have you any ideas on that?

Yvonne Braun: I think certainly the practicalities around ensuring pension contributions are made for people with several jobs under the threshold are quite complex. HMRC real-time information may help with this as well. But I think there also needs to be—and I think that is true for all groups of society, all the groups that we discussed today including the self-employed—a really rather relentless focus on engagement and engagement with retirement savings because we have made enormous strides in terms of mass participation through automatic enrolment. But people are living ever longer, they have the freedoms of retirement and we cannot have a situation where people are through inertia being put into a pension very passively and then are expected at age 55 or 60 to suddenly engage with all this new focus. We need to get to a much better place, which is why we think leveraging fully the guidance services, getting them to reach out to really all citizens regardless of whether they have a pension at the moment or not, to get them to think about what your preparation for retirement looks like would be such an incredibly valuable thing.

Chair: Can Richard come in? We will come to you, Richard.

Q97 Richard Graham: Just a very brief question in terms of this issue of people who have several very small incomes I think I am right in saying you can apply to be auto enrolled if you are earning over £5,000 so the implication of what we are trying to guesstimate is how many people are there who have effectively a minimum of three salaries below £5,000? I guess my question is, are we trying to resolve a problem that may exist but for very few people whereas what we are really trying to fix on is getting 12 million people into pensions for the first time? Is there any way of quantifying this? Tim, do you have any feel for it?

Tim Sharp: For numbers of multiple jobs under £5,000: this issue has come up previously in discussions around the state pension and I don't think there was ever a satisfactory resolution to that number. I would not dismiss those who are earning between £5,000 and £10,000.

Q98 Richard Graham: Apparently they can apply, can't they?

Tim Sharp: They can, but we know from a wider range of workers that with the complications of applying for a pension, not knowing how much to put in, people don't do it. So I think the power of inertia has been incredibly useful in bringing people into the pension system and I do not think we should dismiss that. Potentially this group between £5,000 and £10,000 who are not applying are not getting the employer contributions that their higher-paid workers are getting and they are missing out. Even if it is not going to even provide them with a large income in retirement there is potentially going to be a pot of money when they get to their 60s that can pay off debt, can give you all sorts of things.

Q99 Richard Graham: Just to be clear are you saying that Government should oblige people earning more than £5,000 to opt in to an auto-enrolment scheme?

Tim Sharp: I think we should. I think we should have similar systems with people of—the earnings trigger is too high, I think, is my—

Q100 Richard Graham: Both my neighbours are in that position of earnings between £5,000 and £10,000 in the terrace where I live and neither of them would want to spend the money that they spend on living at the moment, saving for something that they had no idea what it is going to deliver at some point in the future. I think it is a very difficult call to tell people earning between £5,000 and £10,000 that they must put a significant percentage of their income into a pension. I am interested in whether that is really the TUC view, because they have the ability to opt in at the moment. Is that the view of the TUC, that they should be obliged to opt out?

Tim Sharp: I think they should be given the ability. They should have the ability to opt out if they wanted. At the moment they are potentially missing out on employer contributions that will hopefully get more and more significant, that other better-paid workers are getting.

Thomas Brooks: In response to an earlier question about these multiple small pots, the Pensions Policy Institute has done some very good analysis on this to quantify the different groups who are excluded from automatic enrolment, and it shows that although it is an intuitive thing to look at from a pensions policy perspective, it is not the biggest

group of people missing out. There are bigger systemic issues in the labour market to do with gender and ethnicity. There are also other areas like age where people under 22 are not eligible and that could be something worth looking at. If you are 19 working full-time in a supermarket it could be worth starting those people saving, getting the habit early while they can and if they are working full-time why should they not?

Q101 Richard Graham: Have you spoken to any 19-year-olds about saving for pensions?

Thomas Brooks: We have people come to Citizens Advice to talk about it and we know lots of people who are interested in engaging early.

Q102 Richard Graham: You have lots of 19-year-olds coming into Citizens Advice asking about pensions?

Thomas Brooks: We have had about 4,000 people come in last year to talk about automatic enrolment and at least 10% of them were 16 to 24, so there is an appetite for it. They definitely think that—

Q103 Heidi Allen: Even if there is not, I may say, just to interrupt, then it is the Government's responsibility to demonstrate that appetite, because surely—I am not a good example—it is never too early to start saving, I would have thought. Just change your mindset.

Thomas Brooks: The headline messages from the analysis is that these multiple small pots definitely should be looked at but it is not necessarily the biggest prize out there for bringing more people in.

Q104 Chair: No, it isn't the biggest prize, but Richard's was a different point, wasn't it? It is not about just chalking up numbers. It is about do we have a responsibility or do we not have a responsibility for people with small amounts of income whether they should be covered by auto-enrolment or not. It links with Tim's earlier point does it not?

Q105 John Glen: But isn't the key point the costs for enrolling people? Particularly, Yvonne, you were talking about the group 50-64, I think, where there are a lot of people doing part-time jobs and lower-paid jobs—the actual cost for industry of delivering multiple or small pots for people between £5,000 and £10,000 if it was made compulsory would be a very difficult thing to do, and for the Government would be administratively expensive as well for relatively small gain. Surely that has to factor into it somewhere.

Richard Graham: That would increase the bureaucracy.

John Glen: I think we had established that thanks to your question, Richard.

Q106 Steve McCabe: I was just thinking about Richard's point there. I read somewhere that Flexibility UK have reported that there are over a million people in portfolio employment at the moment and they estimate that is rising all the time. Does that not suggest we must have a strategy for these people at some stage because it cannot be the case that portfolio employment becomes an established part of the job market and these people are then outside our main pension arrangements?

Thomas Brooks: It is a big concern at Citizens Advice. For us we are seeing more and more people who are self-employed, as I talked about. We are also seeing more casual work in the labour market so more shift work, more agency work, so it is a big concern. There are over 1.5 million self-employed people who earn above £10,000 who are not paying in so there is a big group of people and it is important that we respond to the adaptation of the labour market as we review automatic enrolment and take account of these people who might be excluded.

Q107 John Glen: Yesterday I was on a panel with one of your colleagues from Citizen's Advice talking about this issue of the proliferation of self-employed with Bright Blue and we discussed the pros and cons of self-employed. There are significant advantages in terms of flexibility, the different way that salaries are paid and different concessions so I think we have to be a bit careful here in prescribing a one-size-fits-all solution in terms of percentages and levels of contribution when there are obviously different pros and cons to different classes of employment.

Thomas Brooks: But as I said, we are seeing that they are saving less in pensions and also less in other products so they are just like any other worker in the sense that they do need to plan for retirement and the logic of automatic enrolment was that we are not very good at planning long-term in advance so I do think it is worth—

Q108 John Glen: One of the quid pro quos of self-employment is that you take ownership of your own destiny, as it were, surely. You cannot have the state then intervene to compel pensions if you allow people flexibility to work in different ways and to switch and not have the same obligations as an employer.

Thomas Brooks: People still have the choice to opt out and they will still be able to take advantage of Freedom and Choice at the time.

Q109 Chair: Yvonne, do you agree with that?

Yvonne Braun: It strikes me that one of the key things will be that there is clarity and simplicity about what incentives the state provides for saving, and that applies to employed people and self-employed people in the same way. As you say, if self-employed people take their destiny into their own hands then it is especially important that it is crystal clear what the state provides by way of support for pension savings, which is why again we are thinking that a saver's bonus that is very clearly articulated will really help drive people towards pension saving and saving for their retirement because they can clearly see the benefits of that, unlike the current system.

Q110 Chair: Tim, do you want to come in?

Tim Sharp: I would just also note that we should not be too dewy-eyed about the ranks of the self-employed. Many people are self-employed now who previously have had employed jobs and the flexibility is not something they necessarily sought out so perhaps we have a certain duty to them. I would also note there are other groups who do not participate in a labour market in that traditional full-time job way that maybe also are falling through the cracks in the system. 30% of disabled workers do not meet the eligibility criteria for auto-enrolment. 81% of carers who are employed do not meet the

eligibility criteria. There are important groups that we think should be able to amass pension savings that are currently not being scooped up in what has been a very successful project so far.

David Fairs: Evidence would suggest that where you have people opt out of pension participation over 90% of people still remain participating in a pension, whereas if you ask them to opt in then typically the participation rates fall below 50%. All the evidence suggests from auto-enrolment, auto-escalation both in the UK and the US, that you get much greater participation if you require people to opt out rather than opt in. That is not to say that people find the cost of saving for pensions so difficult. They do have the choice of opting out. But I think we are storing up a very significant problem unless we get people to save more for retirement.

Chair: Good point, yes.

Q111 Steve McCabe: I just wanted to come back to this issue about self-employed and portfolio employment for a minute. I think the National Audit Office says that by 2050 there are going to be about 12 million small pension pots floating around. I just wondered, what is the problem about trying to do something about that? What is wrong with the idea of auto-transfer—you were suggesting that you should not just make that decision passively at this stage in life—what is wrong with trying to help people bring that together?

Yvonne Braun: We completely agree. The proliferation of small pots is a problem that needs to be addressed. It will make sure that people don't lose track of their savings. It will also help with engagement and in particular it will ensure people don't fall at the first hurdle of retirement planning because they don't know where their pots are and how many they have.

The pot-follows-member initiative was postponed by DWP. We think that is probably wise, because there is a better way of doing this, which is having online access to all your pensions in one place. We call that the pensions pot or our pensions dashboard. It is very successful in other countries, particularly in Scandinavia and in the Netherlands, and basically it gives people the ability to look at the totality of their pension pots with different providers in one place and that gives them the ability to see, "I have this much money or that much money and maybe I need to save a bit more." It also helps with engagement: in Sweden, people who use the dashboard report that they feel much more confident and knowledgeable about their pension arrangements.

There are a number of projects in that space, including one with the Money Advice Service in the Government Digital Service. We would be very keen to see a governance structure that is jointly owned by the industry and by Government. That is what worked in Sweden and that would ensure that you have coverage and also integration of the digital state pension into the overall vista of your retirement preparations.

Q112 Chair: How long would it take to introduce that dashboard, Yvonne?

Yvonne Braun: The Swedes took 10 years, but they started 10 years ago. I think where we are now, with exponential growth in computing facility, it should take an awful lot less than that. We have to use the 80/20 rule because there are 40,000 very small trust-based

pension schemes out there. I very much doubt that they would clamour to be part of this from the outset.

Chair: Richard, you asked for that platform before, haven't you?

Q113 Richard Graham: I have. I think both the interesting and the difficult thing in this discussion is that we are straying out of auto-enrolment into a much wider issue about savings, which is a very interesting one, and all our guests today are very well qualified to comment on all of that. What Steve was asking about is in a sense something slightly different, which is about the accumulation of different pension pots: typically, defined contribution pots rather than the auto-enrolment question. So, it just depends, Chairman, how far you want to widen the discussion.

The key point I take from this morning's discussion is that the largest number of people who are currently not really captured by auto-enrolment are the self-employed, and therefore if we are looking at recommendations to Government about how a fundamentally popular and successful policy can be taken forward to the next stage, clearly there are different things like at what point we increase the already staged increase to 8% and beyond. But there is also the issue of how we can most effectively try to enable people who are self-employed to save through auto-enrolment, what the Government contribution to that should be, and how the process would work. Is that a comment that you would agree or disagree with?

Steve McCabe: Which one?

Chair: Particularly the role of how might one spread auto-enrolment to the self-employed.

David Fairs: I think the self-employed is a critical area but equally I think are the low-paid and particularly women so to reiterate I strongly think that the removal of the lower deductible on qualifying earnings for auto-enrolment should be taken down to zero so that all earnings count and the threshold is reduced. I say those two things in combination, self-employed and low-paid and particularly women are excluded from auto-enrolment at the moment.

Q114 Richard Graham: Can you spell out to us what the first point means in practice?

David Fairs: At the moment under auto-enrolment the first £5,800 of earnings do not have contributions paid on them and a threshold was introduced so that you get a meaningful level of contributions beyond £5,800 before contributions are required. We are suggesting the £5,800 goes down to zero and therefore the £10,000 threshold could be reduced down to £5,000, say, so the low-paid, once they get earnings above £5,000 would then be required to be auto-enrolled and contributions from the individual and the employer would then begin to be paid. So, you bring many more low-paid, and particularly women, into auto-enrolment.

Tim Sharp: I would also note that doing that would also have an impact on the savings rates for what we might class as middle-earners as well. So if you are earning £27,000 and you are on 8% band earnings then your contribution is about £1,700. That steps up to £2,100 if you have all of your income being taken into account. So, it is not just a way of

helping the low earners. It is a way of helping build up savings rates among middle-earners as well.

Thomas Brooks: I think at this juncture the two questions are, do we want more people saving, or do we want those people who are saving to save more. In response to do we want more people saving, yes, absolutely. Bring the self-employed people in, but also this idea of reducing the lower qualifying earnings would both bring more people in but also help those already in to save more without increasing the headline rate. So, that is attractive from the two perspectives of bringing more people in and also letting people save more as well.

Yvonne Braun: I think more people saving more must definitely be the ambition for that, but I think we need to be looking quite carefully at the replacement rate that people are getting through the State pension before we can be sure that we should adjust both the thresholds. I think that should both be done in the auto-enrolment review in 2017, much like a similar investigation was done in the “Making Automatic Enrolment Work” review in 2010.

Chair: Steve, do you want the question back from before I deflected it from you?

Steve McCabe: No.

Chair: Very good, thank you for two really good sessions today and thank you for your help.