House of Commons

Work and Pensions Committee

Protecting pension savers – five years on from the pension freedoms: Saving for later life

Third Report of Session 2022–23

HC 126

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Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Work and Pensions and its associated public bodies.

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Summary

This is the final report of a three-part inquiry on Protecting Pension Savers, looking at who is not saving enough for an ‘adequate’ income in retirement and how to address this. We are keenly aware of the difficulty of raising these questions at a time when many people are struggling to meet their present needs. However, we also believe that not doing so risks a crisis in future, as many people find they will not have an adequate income in retirement only when it is too late to do anything about it.

Automatic enrolment, the policy which requires employers to auto-enrol workers into a workplace pension and make minimum contributions, was introduced in 2012, based on the recommendations of the Pensions Commission. It has been a success in increasing the proportion of eligible workers saving in a pension from 44% in 2012 to 86% in 2020. Participation rates among workers has been high, with only around one in ten opting out. However, ten years on, it is time to take stock of where we are and what the system is on course to achieve.

Are people saving enough?

There are three main challenges. These are the risks that: many are not saving enough for an ‘adequate’ income in retirement; there are people not within the scope of auto-enrolment due to low pay or because they are self-employed who would benefit from saving in a pension; and that decisions people take at and in retirement result in them not having a sustainable income that meets their needs throughout later life. We looked at the third of these issues in report on Accessing Pension Saving published in January, the other two were the subject of this inquiry.

Many newly auto-enrolled people make minimum contributions, not realising that this will not be enough to give them an adequate living standard in retirement. The Pensions Commission designed auto-enrolment to get median earners part of the way to its definition of retirement adequacy, with the expectation that they would make additional voluntary savings on top. However, largely they have not done so. Recent analysis by the Pensions Policy Institute for B&CE showed that only 39% of households and 37% of individuals are on track to hit the target replacement rates used by the Pensions Commission to benchmark adequacy. A group at particular risk, is people in their forties and older who do not have access to a defined benefit pension (a pension that pays benefits based on salary and length of service) and have had limited time to build up a pension through auto-enrolment.

Although there are two commonly-used measures of adequacy—the Pensions Commission’s target replacement rates and the Pension and Lifetime Association’s retirement living standards—there is no consensus on a single definition or on what outcomes the pensions system should be designed to achieve. Achieving a new consensus is essential to gaining support for reforms needed to address the problem. We are calling on the Government to set out its plans for this by March 2023.

The 2017 review of auto-enrolment

We support the former Pensions Minister's continued commitment to introducing the recommendations of the 2017 auto-enrolment review by the mid-2020s. It is disappointing that five years on, we have seen no implementation plan or impact assessment. There is almost universal support for these recommendations, which would improve retirement outcomes for many part-time workers, disproportionately women, and for workers in the gig economy. The former Pensions Minister told us he had a two or three clause bill ready to make the necessary changes to legislation. We recommend the Government introduce the necessary legislation no later than the beginning of the next session of Parliament. It must also publish a timetable for consultation on implementation, taking account of cost pressures on employers and workers.

Minimum auto-enrolment contribution rates

Many witnesses told us that minimum contribution rates needed to increase above 8% (3% employer and 5% employee, including tax relief). We welcome the former Pensions Minister's aspiration to work towards a 12% minimum contribution rate, as in Australia. There are good arguments for starting with an increase in employer contributions to 5%, level with employees. And any move to increase contributions should aim to increase pension saving for the right people at the right time. We welcome the fact that the Department for Work and Pensions (DWP) is doing research to understand the impact on low earners.

The middle of a cost of living crisis is not the time to ask people to pay more into their pension. However, if they are to do so in future, work to prepare the ground needs to start now to build consensus on the need for change. As a first step, the Government should say whether it expects it to be possible to increase minimum contributions in the foreseeable future and, if not, its plan for addressing the challenges set out in this report. There will of course be people who see limited gain from any increase in minimum contributions because they are a relatively short distance from retirement. The Government needs to say how it plans to address this challenge that many such people are not on course for an adequate retirement income.

Self-employed

The Government also needs to move forward with a plan to increase pension saving for self-employed people, which has declined since the mid-1990s and is now at 16%, compared to 88% of workers eligible for auto-enrolment. Two features of auto-enrolment have made it very effective for employees: the fact that people are defaulted in; and the employer contribution, which is an incentive to participate. These do not apply to self-employed people and efforts to encourage them to save in a pension voluntarily have not been effective. The former Pensions Minister agreed with many other witnesses we heard from, that an approach like auto-enrolment, where self-employed people are defaulted into pension saving, is needed. DWP told us it aimed to work with software developers and HMRC, after the introduction of Making Tax Digital (MTD), scheduled for April 2024, to see if this can be done. We were therefore disappointed to hear that HM Treasury has "no current plans" to introduce a facility for automatic enrolment into pensions as part of MTD delivery. We recommend that HM Treasury and DWP work together to: set a date to trial ways to default self-employed people into pension saving. They should also consult on the proposal to increase the main rate of National Insurance paid by the self-employed (Class 4) by 3%, with the option to have the increase paid into a pension if the self-employed personal also contributes 5% (including tax relief). Alongside that, the Government should consider how to promote pension saving to self-employed people.

Gig economy workers

We are concerned that many people working in the gig economy are missing out on their right to build up a pension through auto-enrolment because the company they work for classes them as self-employed. The Pensions Regulator (TPR) told us it faces considerable challenges in enforcement, with employers challenging its decisions at every stage and it having to meet a high evidential bar in tribunal cases. Although the Department for Business Energy and Industrial Strategy (BEIS) issued new guidance on employment status in July 2022, TPR expects these challenges to continue. We heard from Uber and the GMB that better enforcement arrangements are needed to ensure workers get their pension rights. We repeat the recommendation made in two previous reports that the Government should bring forward its Employment Bill for parliamentary scrutiny as soon as possible, to increase the legal protection available to people in low-paid work and the gig economy. In the meantime, DWP should work with TPR to estimate the extent of the problem and what additional resources or powers TPR needs to be able to ensure employers in the sector comply with their auto-enrolment duties.

The gender pension gap

There is no consensus on how the gender pension gap should be defined. Reports from stakeholders suggest little sustained progress is being made to reduce it. We recommend that DWP work with colleagues across government and other stakeholders to agree a definition and a target to reduce it. There is consensus that, in DWP's words, the gender pension gap is "mainly caused by inequality in the labour market, including differences in working patterns and earnings." An effective plan to reduce it, needs to address this head on. We heard proposals, for a 'carer's credit' to auto-enrolment, for example. In the short-term, we recommend the Government look at ways to make existing policies work better for lower-paid and part-time workers. This should include: a review of the £10,000 earnings trigger for auto-enrolment; ensuring non-taxpayers benefit from tax relief, regardless of the type of pension arrangement they are saving in; ensuring people caring for children get credits towards their State Pension; and increasing the incidence of pension sharing on divorce. DWP and HM Treasury should continue to explore ways to bring multiple jobholders within the scope of auto-enrolment, for example, by amending the PAYE coding notice system to add an instruction to auto-enrol.

Guidance

We also call on the Government to do more to ensure people have the support they need in making decisions for retirement, including taking steps to raise awareness of the free impartial pensions guidance on offer from MoneyHelper Pensions and addressing the barriers to pension schemes and employers providing more guidance and support to savers.

The way forward

To conclude, we heard that there is a consensus that auto-enrolment has been successful in increasing participation in workplace pension saving but also that it is time to address the challenges which mean many people are unaware they are not saving enough for an adequate income in retirement. There is a need to forge a consensus on the future direction, including employers, trade unions, the pensions industry and the wider public. This will require a cross-government commitment to develop a plan and build this consensus. In some areas—such as how to increase self-employed pension saving, ensure any future increase in contributions is well-targeted, and increase the incidence of pension sharing on divorce—a better evidence base is needed to understand the issues. We recommend that the Government set up a new office tasked with: building and maintaining an evidence base; explaining the trade-offs involved in different policies; reporting regularly to Parliament on progress in meeting objectives, in particular relating to retirement adequacy and the gender pension gap.

1 Introduction

1. This is the final report of a three-part inquiry on Protecting Pension Savers. The first, published in March 2021, looked at pension scams, the second, published in January 2022, looked at the challenging decisions individuals face when accessing pension savings.[1] This third report looks at who is not saving enough for an 'adequate' income in retirement and how to address this. We are very grateful to the organisations and individuals who gave such valuable evidence to help us understand the issues.

2. We are keenly aware of the difficulty of raising these questions at a time when many people are struggling to meet their present needs.[2] Since we last took evidence, the Bank of England has increased its inflation forecast again and the Government under the leadership of the new Prime Minister, the Rt Hon Liz Truss MP, announced a package to keep typical household energy bills at £2,500 a year for the next two years.[3] However, we also believe that not facing up to the extent of under-saving for retirement now and putting in place a plan to address it, risks a crisis in future as many people realise they do not have enough for an adequate income in retirement only when it is too late to do anything about it.

The current system

3. The current pensions system—automatic enrolment into a workplace pension and a reformed State Pension providing a higher amount at a later age —has its origins in the reports of the Pensions Commission set up by the Labour Government in 2002.[4] The Commission said that the existing pension system would "deliver increasingly inadequate and unequal results."[5] Faced with an increasing population aged 65 and over, some mix of higher taxes/National Insurance, working longer and saving more was likely to be needed.[6] Its key recommendations were to require employers to auto-enrol workers into a workplace pension and make minimum contributions to it unless the worker opts out; and reforms to the State Pension, restoring the link with earnings, improving outcomes for carers and increasing the pension age.[7]

4. Many witnesses praised the approach taken by the Pensions Commission saying it had succeeded because it had first built consensus on the nature of the problem and only then moved on to build consensus among politicians, the industry, trade unions and employers in support of proposals to address the problems.[8] Successive governments have supported the basic framework it recommended: the reforms were legislated for, with some modifications, on the initiative of the Labour Government and introduced following a review by the Coalition Government.[9] A review by the Conservative Government in 2017

1 Work and Pensions Committee, Fifth Report of Session 2019–21, Protecting pension savers - five year on from the pension Freedoms: Pensions scams, HC 648; Work and Pensions Committee; Fifth Report of Session 2021–22, Protecting pension savers - five years on from the pension freedoms: Accessing pension savings, HC 237
2 Work and Pensions Committee, Second Report of Session 2022–23, The cost of living, HC 129
3 HC Deb 8 September 2022 c398; Bank of England Monetary Policy Report, 4 August 2022
4 Pensions Commission release second report, 30 November 2005
5 Pensions Commission release second report, 30 November 2005
6 Pensions: Challenges and Choices. The First Report of the Pensions Commission, 12 October 2004, Executive Summary
7 Pensions Commission release second report, 30 November 2005
8 Q70 [Laurie Edmans]; Q42 [Nigel Stanley]; Q2 [Chris Curry]
9 For background, see House of Commons Library Briefing Papers, Pensions Bill 2006–07, Pensions Bill 2007–08, Pensions Bill 2010–12; Pensions Bill 2013–14

set out proposals to "maintain the momentum achieved so far and to build a stronger, more inclusive savings culture for future generations."[10]

5. Auto-enrolment is agreed to have been a success in reversing the previous decline in workplace pension saving: the proportion of eligible workers saving in a pension rose from 44% in 2012 to 86% in 2020, with over 10.6 million people auto-enrolled by December 2021.[11] In addition, participation has remained high, at 89% for 40 to 49 year-olds and 85% for 22 to 29 year-olds.[12] However, we also heard that many people are not saving for an adequate income in retirement. The focus of the current report is what should be done to put them on track for this.

Current challenges

6. The context for our inquiry is a changing pensions landscape: the provision of defined benefit (DB) schemes (which provide pension benefits based on salary and length of service), has declined in the private sector, where most employers (98%) automatically enrol employees into defined contribution (DC) schemes (where contributions are made to a pension pot which is invested for retirement.)[13] This shift to DC, combined with policy changes (the introduction of auto-enrolment and the pension freedoms), has "changed radically" the way we save into pensions and created new challenges for regulators, employers and savers. This is because auto-enrolment works by harnessing inertia but still leaves individuals with important decisions to make.[14] The Institute and Faculty of Actuaries told us of the increased need to support individuals confronted by the need to manage risks they did not have to worry about previously.[15]

7. We heard that ten years on from the introduction of auto-enrolment, it is time to take stock. This is partly because so much has changed including, as Carl Emmerson, Deputy Director of the Institute for Fiscal Studies told us, a financial crisis; the pandemic; changes in the labour market including the growth in the gig economy and self-employment; and the growth in house prices and decline in home ownership rates.[16] Others stressed the need to review the outcomes the current framework is set to achieve for individuals. Our witnesses broadly agreed on three key areas needing to be addressed:

- Many are not saving enough for an 'adequate' income in retirement but do not realise this. The challenges are different for different generations—defined as millennials (born 1980 to 1995), generation X (born 1965 to 1979) and baby boomers (born up to 1964).
- There are many people who would benefit from saving in a pension but are not doing so because they are not auto-enrolled either due to low earnings or because they are classed as self-employed; and
- Decisions that people take in retirement result in them not having a sustainable income that meets their needs throughout later life.[17]

10 Department for Work and Pensions, Automatic Enrolment Review 2017: Maintaining the Momentum, Cm 9546, December 2017
11 Department for Work and Pensions (PSL0047)
12 The Pensions Regulator (PSL0043)
13 Pensions Policy Institute, The DC Future Book 2021, September 2021, Chart 2.4
14 The Pensions Regulator (PSL0043)
15 The Institute and Faculty of Actuaries (PSL0035)
16 Q3
17 Q3; Q42; Q70; Q87; Q115; Q127; Q189; PLSA (PSL0040); Aegon (PSL0012); Age UK (PSL0018); Aviva (PSL0020)

Response to our Accessing Pension Savings report

8. We looked at how savers are prepared and protected as they start to draw their pension saving in our Accessing pension savings report published in January 2022.[18] During that inquiry we were told by the Financial Conduct Authority (FCA) that consumers described pensions as a 'minefield', with even those who felt financially confident in other aspects of their lives struggling to understand how pensions worked.[19] We called on the Government and regulators to play a more active role in supporting savers to make better decisions about their money.[20]

9. We described Pension Wise, which had been established as a 'guidance guarantee' and a key pillar of the pension freedoms reforms, as a "well-regarded but under-utilised service" and recommended that the Government set a target of at least 60% for uptake of pensions guidance and advice.[21] Both the Department for Work and Pensions (DWP) and the FCA introduced rules requiring schemes to give a 'stronger nudge' to take guidance from Pension Wise before accessing their pension. The two sets of rules are not identical: DWP has made the opt-out requirements more onerous.[22] However, we did not think the stronger nudge would be enough to make using Pension Wise "the norm" and recommended two trials of automatic Pension Wise appointments: one at the point a person applies to access their pension for the first time and the other at age 50.[23] The Government rejected our recommendation, saying that consideration of "further possible nudges or referrals" would be informed by the success of the stronger nudge.[24]

10. In the course of the current inquiry, we heard continued support for the Government to go further. Chris Brooks told us that Age UK had identified widespread support for such a trial, which would enable approaches to be evaluated and tweaked if necessary.[25] Tesco had had overwhelmingly positive feedback and high take-up from putting in place a simple online process with easy to book slots: colleagues had gained a better understanding of their pensions and the options available. We were told that being able to have such a conversation in a convenient location and in work time was "highly valued" and colleagues appreciated this support from their employer.[26]

11. We also heard concerns about the timing of the stronger nudge, that it comes too late in the process.[27] The FCA and Money and Pensions Service (MaPS) told us that they were aware of the positive effect of earlier nudges. MaPS, an arms-length body sponsored by DWP to help people improve their financial well-being, said it was "aware of the

18 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting pension savers - five years on from the Pension Freedoms: Accessing pension savings, HC 237
19 Financial Conduct Authority (APS0061)
20 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting pension savers - five years on from the Pension Freedoms: Accessing pension savings, HC 237
21 Lack of guidance for pension savers risks freedoms 'failure', MPs warn, 18 January 2022
22 Financial Guidance and Claims Act 2018, s18 and 19; Financial Conduct Authority, The stronger nudge to pensions guidance: feedback on CP21/11 and final rules and guidance. Policy Statement PS21/22, December 2021; Occupational and Personal Pension Schemes (Disclosure of Information) (Amendment) Regulations 2022 (SI 2022/30)
23 Work and Pensions Committee, Fifth Report of Session- 2021–22, Protecting pension savers - five years on from the Pension Freedoms: Accessing pension savings, HC 237, para 74–5
24 Accessing pension savings: Government and Financial Conduct Authority to the Committee's Fifth Report, April 2022
25 Q48
26 Tesco (PSLO073)
27 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting pension savers - five years on from the Pension Freedoms: Accessing pension savings, HC 237, para 70

positive impact of earlier nudges at the point people first start thinking about accessing their pension pots," but that the timing was prescribed in legislation.[28] Sarah Pritchard, Executive Director of Markets at the FCA, told us they had had feedback suggesting that an earlier nudge might also be beneficial. The FCA wanted firms to consider outcomes, as part of the new consumer duty, and ask themselves whether nudges could be given earlier.[29] Guy Opperman MP, former Minister for Pensions and Financial Inclusion, said he believed "an early nudge is effective, so end of story."[30]

12. We asked about plans for evaluating the stronger nudge. MaPS Chief Executive, Caroline Siarkiewicz, said that early estimates suggested around 3,500 appointments in the first month of implementation and offered to share data with us on a quarterly basis.[31] However, she said it would be for DWP to judge whether the policy was successful in terms of take-up.[32] The former Minister said he did not "have a definite metric at this present stage…partly because the Money and Pensions Service is running it."[33] In terms of outcomes, he had put MaPs "on notice" that he was looking for behaviour change rather than whether people felt "warm and fuzzy" about the service they received.[34] He indicated that success would be evaluated as part of the next review of MaPS as an arms-length body, a logical time for which he thought would be the spring of 2024.[35]

13. **The Government has not acted on our recommendation to set a target of at least 60% for the combined use of Pension Wise and paid for advice when accessing pension pots for the first time. It also rejected our recommendation for a trial of automatic Pension Wise appointments, saying it would consider whether further interventions were needed, based on its assessment of the 'stronger nudge.' We remain concerned that the stronger nudge will not be enough to make take-up of Pension Wise 'the norm' and that neither DWP or MaPS have set metrics by which to judge its success, whether in terms of take-up of appointments or the effectiveness of the intervention. We are also concerned that a review in 2024, as suggested by the former Minister, will be too late given the time that it would take to trial and then implement any alternative solution.** ***We recommend that by March 2023, DWP, the FCA and MaPS publish the metrics they intend to use for evaluating the stronger nudge. These should cover issues including take-up, the timing and the extent of behaviour change resulting from it. The evaluation should be completed no later than the end of July 2023. In addition, DWP should commission research to look at other initiatives trialled in the meantime, such as automatic appointments.***

28 Money and Pensions Service (PSL0063)
29 Q154
30 Q274
31 Money and Pensions Service, Response to the Committee's report on Accessing Pension Savings, 30 June 2022
32 Q153 and Q155
33 Q273
34 Q273 and 301
35 Q303

2 Are people saving enough?

14. Many people are not saving enough for an adequate income in retirement. The Association of British Insurers (ABI), for example, said that "a quarter of people approaching retirement are unlikely to receive a minimum standard of income, and nearly half will fail to meet a personally acceptable level of income in retirement."[36] The Pension and Lifetime Savings Association (PLSA) said "most evidence indicates that millions of UK households will not have adequate savings for retirement."[37] Professional Services firm, AON, said that "many UK households (particularly those in the private sector where DC pension saving is invariably the only option) do not have, and are unlikely to have, adequate retirement savings provision."[38] The Financial Inclusion Commission, an independent body which champions financial inclusion, said there was a "real danger of many people 'sleep walking' into a much-reduced set of circumstances in retirement compared to what they are expecting."[39] Sue Ferns, Deputy General Secretary of the trade union, Prospect, said "the truth of the matter is that we have gone from a situation where millions of workers had no occupational pension to one where millions of workers have an inadequate occupational pension."[40]

What is an adequate retirement income?

15. This raises the question of what we mean by an "adequate" retirement income. We heard that, although there is no standard definition, two approaches are commonly used:

- The **Pensions Commission's target replacement rates** look at retirement income as a ratio of earnings in working life, with the aim of ensuring people can have a similar lifestyle before and after retirement. The Commission proposed a replacement rate of around 80% for low earners, 60 to 66% for median earners and 50% for higher earners. It concluded that it was "a reasonable aim of public policy to ensure that the median earner achieves an income replacement rate of at least 45%" and proposed the minimum auto-enrolment contribution of 8% (4% from employees, 1% tax relief and 3% from employers) with that in mind. Beyond that, it thought the Government should 'enable' additional low cost saving of 15–18%.[41]

- The **Pension and Lifetime Savings Association's (PLSA) Retirement Living Standards** aim to help people picture the lifestyle they want when they retire and to understand the associated costs. There are three different levels of retirement expenditure, based on the cost of three different baskets of goods and services, established by what the public considers realistic and relevant expectations for retirement living.: the minimum standard (£10,900 a year for a single person in 2021/22) represents the minimum deemed necessary to enable someone in the UK to take part fully in society; the moderate standard (£20,800) to enable

36 Association of British Insurers (PSL0036)
37 Pension and Lifetime Savings Association (PSL0040)
38 Aon (PSL0011)
39 Financial Inclusion Commission (PSL0032)
40 Q42
41 Pensions: Challenges and Choices: The First Report of the Pensions Commission, October 2004, p142; A New Pension Settlement for the Twenty-First Century. The Second Report of the Pensions Commission, November 2005, p7 and p132

> someone to access a range of opportunities and choices, having a sense of security and the option to do some of the things they would like to do. The comfortable standard (£33,600) is about having a broad range of opportunities and choices, peace of mind and the flexibility to do a lot of the things that they would like to do.[42]

Comment

16. Witnesses said that these two commonly-used measures of adequacy are useful in different ways: the retirement living standards resonate with individuals and help people to understand the idea of adequacy. They also provide a benchmark of the minimum the public think is necessary to enable someone in the UK to take part fully in society.[43] Replacement rates help people understand the trade-offs they might need to make between living standards in working life and retirement.[44]

17. The Institute for Fiscal Studies (IFS) told us that current projections about pensions adequacy should be interpreted and used with caution, as "appropriate replacement rates may be much more varied across people and time than indicated by commonly used benchmarks." It was "also important to consider all parts of a family's wealth portfolio when judging retirement saving adequacy, not just an individual's private pension saving."[45]

Estimates of under-saving

18. Both Government and outside bodies have produced estimates of the proportion of people on target for retirement adequacy, using both these measures.

19. For its 2017 review, the Department for Work and Pensions (DWP) produced estimates of whether people were on track to meet the Pensions Commission's target replacement rate. It found that although auto-enrolment had reduced the number by 2 million, there were still around 12 million people under-saving for their retirement (some 38% of the working age population). Almost half (5.7 million) were 'mild' under-savers. There were 1.5 million 'substantial under-savers' and 4.8 'modest' under-savers. Most under-savers (87%) earned more than £25,000 a year. Of the 1.6 million under-savers in the lower earnings bands, just over half (around 800,000) were within 20% of their target replacement rate.[46] DWP has not updated its 2017 assessment of the extent of under-saving. The former Minister told us that the size of the figure for the number of under-savers now was "up for debate" but was still "clearly substantial": DWP "remained committed to carrying out further analysis in relation to measuring the adequacy of retirement incomes."[47]

20. Other evidence pointed to more recent estimates of the extent of under-saving, indicating that many were not on track for an adequate income in retirement.[48] A significant number of witnesses expressed concern about those people now in their forties and fifties without Defined Benefit pension entitlement, who had had limited time to

42 Matt Padley (PSL0019); Pension and Lifetime Savings Association (PSL0040)
43 B&CE (PSL0052); Age UK (PSL0018); Q4 [Rob Yuille]
44 Q88
45 Institute for Fiscal Studies (PSL0034); Q4
46 Department for Work and Pensions, Automatic enrolment review 2017: Maintaining the Momentum, December 2017, p32–3
47 Q279; Letter to Committee Chair from Pensions Minister, 26 August 2022
48 Pension and Lifetime Savings Association (PSL0040)

benefit from auto-enrolment.[49]

21. New research published on 31 August 2022 with analysis by the Pensions Policy Institute for B&CE, providers of the People's Pension, confirmed that the combination of auto-enrolment and a reformed state pension is "not likely to result in an adequate retirement income for the majority."[50] Key findings from the research were:

- At the level of the whole population, only 39% of households and 37% of individuals are on track to hit the Pensions Commission's target replacement rates. Most are also on track to miss the PLSA moderate and comfortable retirement living standards. Eighteen percent of households are on track to reach the moderate standard and 4% to reach the comfortable standard.[51]

- The aggregate picture concealed significant disparities. Baby boomers are most likely, collectively, to reach chosen adequacy measures, due to much higher levels of DB pension entitlement.[52] Unequal access to DB is also the driver of disparities within the baby boomer and generation X cohorts: those with access to DB are usually more likely to be on track for an adequate outcome and those who do not may be in a worse position than equivalent millennials, who were likely to have access to workplace DC pension saving through auto-enrolment for longer.[53]

- For millennials on lower incomes, the combination of a reformed state pension and auto-enrolment are likely to result in something close to their envisaged replacement rate. For millennials with higher incomes, current levels of pension saving are "not likely to replace enough pre-retirement income, either on an individual or household basis, to replicate anything like a pre-retirement standard of living."

- As in 2005, with the Pensions Commission report, the use of additional capital and housing wealth to replace pre-retirement income, is shown to reduce but not eliminate the problem.[54]

22. The report concluded that, for younger people, auto-enrolment was working broadly as intended: for lower earning millennials who have the benefit of a full working life saving through auto-enrolment, the proportion reaching both the PLSA minimum retirement living standard and their Pensions Commission replacement rate are quite high. It said that, for most of the bottom half of the income distribution in this cohort, there was therefore "only a limited case for saving more than 8%."[55] For higher earning millennials, the reason for their projected shortfall appears to be that they are not making the additional

49 Pensions Policy Institute, What is an adequate retirement income?, July 2021; International Longevity Centre UK (PSL0045); Q127; Lane Clarke Peacock, The ski slope of doom, April 2021; Aegon (PSL0012); Aon (PSL0011); The Investing and Savings Alliance (PSL0013); LV= (PSL00016)

50 B&CE, Pensions Adequacy in Great Britain, findings from round 7 of the Wealth and Assets Survey, August 2022, p20

51 Ibid

52 A defined benefit (DB) pension is one that promises a particular level of benefits based on salary and length of service. In contrast, in a defined contribution scheme (DC), of the type in which most people auto-enrolled now save, people contribute to their pension pot which is invested for use at retirement

53 B&CE, Pensions Adequacy in Great Britain, findings from round 7 of the Wealth and Assets Survey, August 2022, Executive Summary

54 Ibid, p2

55 Ibid p13

voluntary pensions contributions that the Pensions Commission said would be needed to hit their adequacy target.[56] The report also found that there was a "considerable shortfall" in the pension savings of generation X and some baby boomers, for whom auto-enrolment arrived too late and DB pensions either were never offered through the workplace or were withdrawn early in their savings careers.[57] B&CE said this pointed to:

> […] a likely crisis of under-saving that will crystallise as generation X retires, yet this is not yet common knowledge and it is far enough away to not trouble the electoral cycle. By the time it causes a political rupture, it will be much too late to address the issue.[58]

23. This echoed concerns voiced by former Pensions Minister, Sir Steve Webb, who told us that UK pensions policy could best be described as a "slow motion car crash":

> We are roughly at peak DB at the moment. For people retiring this year, it is about as good as it is going to get in the private sector. Every year thereafter we think that the real value of people at retirement from DB is dropping and dropping. In 20 years, it will be vanishingly small. The DB tide is going out; the DC cavalry is nowhere to be seen. The problem is that we have a generation of people in the middle—not my kids, who are in their 20s and who have 50 years of auto-enrolment to build up a modest pot on top of a state pension, and not people in their 60s, many of whom lived through the golden era of DB, particularly men, but the people in the middle, in their 40s. They are the people who missed out on DB in large measure and who perhaps count auto-enrolment at minimum contribution rates now. Frankly, the crisis is now.[59]

24. Concerns about the pension prospects of people approaching retirement had also been raised by 2021 research by the Pensions Policy Institute, which was cited by several of our witnesses. It found that of the 11 million people in the UK between 50 and the State Pension age, around three million would not receive a minimum income; around five million would not receive a personally acceptable income; and around 10 million would not receive a comfortable income.[60]

A new consensus on adequacy?

25. Many witnesses told us that to move forward, a new consensus on adequacy was required. Director of the Pensions Policy Institute, Chris Curry, said that only by determining what the objectives of the system are, can we determine whether it can deliver against them.[61] The Financial Inclusion Commission told us that an "analysis of pensions prospects" as comprehensive and widely agreed as that carried out by the Pensions Commission in 2004–05, but based on conditions now, was needed to create a consensus as powerful as was achieved then and "vital if the slide of most peoples' pension savings towards inadequacy is to be halted, let alone reversed."[62] The Institute

56 Ibid
57 Ibid p2
58 Ibid p3
59 Q127; Lane Clarke Peacock, The ski slope of doom, April 2021
60 Pensions Policy Institute, What is an adequate retirement income, July 2021
61 Q2–3
62 Financial Inclusion Commission (PSL0032)

for Fiscal Studies said that "without explicit consideration of what constitutes adequacy, there is a real risk that policy makers hold working age generations to too high a bar and inappropriately distort saving behaviour."[63] Former member of the Pensions Commission, Baroness Jeannie Drake, said it was important to have a target, so you know what you are aiming for and whether you have achieved it, but also to decide how far the state should intrude.[64] Will Sandbrook, Managing Director for Strategy, Analytics and Nest Insight at the National Employment Savings Trust (NEST), said it was important to "make more progress in understanding what a good outcome in retirement looks like for people relative to their working-age situation."[65] Darren Philp of Smart Pension said it was important to have that debate now as it would take a long time from consensus being reached for changes to be implemented.[66]

26. **Many newly auto-enrolled people make minimum contributions, not realising that this will not be enough to give them an adequate living standard in retirement. The Pensions Commission designed auto-enrolment to get median earners part of the way to its definition of retirement adequacy, with the expectation that they would make additional voluntary savings on top. However, largely they have not done so. Recent analysis by the Pensions Policy Institute for B&CE showed that only 39% of households and 37% of individuals are on track to hit the target replacement rates used by the Pensions Commission to benchmark adequacy. A group at particular risk, is people in their forties and older who do not have access to a defined benefit pension (a pension that pays benefits based on salary and length of service) and have had limited time to build up a pension through auto-enrolment.**

27. **Although there are two commonly used measures of adequacy, there is currently no consensus in support of a single definition or what target the system should aim to achieve. We heard that building a new consensus on this—involving employers, trade unions, politicians, the wider public and the pensions industry—would be essential to gaining support for any reforms to address the problem of under-saving.** ***We recommend that, by March 2023, the Government should set out its plans to build a new consensus on what an adequate income in retirement is and what the pensions system should be designed to achieve.***

63 Institute for Fiscal Studies (PSL0034)
64 Q128
65 Q88
66 Q94

3 The 2017 review

28. Automatic enrolment requires employers to enrol eligible workers (aged between 22 and State Pension age who earn above the earnings trigger—£10,000 a year—in the relevant period) into a workplace pension and, unless they opt out, make minimum contributions on a band of 'qualifying earnings' (between £6,240 and £50,270 in 2022/23).[67]

29. A Department for Work and Pensions (DWP) review of automatic enrolment in 2017, supported by an independent expert advisory group, recommended:

- Lowering the minimum age at which a worker has to be auto-enrolled from 22 to 18;[68] and
- Removing the lower limit of the 'qualifying earnings band' (£6,240 in 2022/23), so that contributions are paid from the first pound of earnings.

30. The review said that lowering the age threshold would help make saving the norm for young people. Removing the lower earnings limit on contributions would help lower earners, who would benefit from an employer contribution from the first pound earned, and improve the incentives for workers with multiple part-time jobs to opt in. DWP estimated that the proposals would bring an extra £3.8 billion into pension saving annually, increasing the pension pot of the lowest earners by over 80 per cent and that of the median earner by over 40 per cent.[69] The Government said its ambition was to implement these changes in the mid-2020s, subject to: discussions with stakeholders on the approach to implementation; finding ways to make the changes affordable, and evidence of the impact of the increases in minimum contribution rates in April 2018 and April 2019.[70]

The case for implementation

31. We heard that there was "almost universal support" for the Government to "get on and implement the conclusions of the 2017 review," on grounds that this would improve retirement outcomes for those not well-served by the current system, in particular, lower paid and part-time workers.[71] NOW:Pensions emphasised the contribution these changes could make to improving retirement outcomes for people currently at risk of being under-pensioned—including women, ethnic minorities, people with disabilities, carers, multiple jobholders and the self-employed—who are at greater risk of experiencing poor later life outcomes as a result of inequalities during working life.[72] Aviva said that having the £6,240 contribution threshold deducted from each employment particularly disadvantaged those with multiple part-time jobs, who are disproportionately women.[73] The Pensions Regulator (TPR) said that lowering this threshold would "lead to many more people in gig economy being brought into pension saving."[74] The TUC said removing the earnings threshold on contributions would double the contributions of a worker earning £12,500 from £500 a year to £1,000 a year and said implementation should be a priority given the

67 Pensions Act 2008, s3 and s20
68 Pensions Act 2008, s3
69 Automatic enrolment review: maintaining the momentum, Cm 9546, DWP, Dec 2017, p10
70 Automatic enrolment review: maintaining the momentum, Cm 9546, DWP, Dec 2017, p10 and 35
71 Q89–90 [see also Sue Ferns and Sophia Dimitriadis]
72 Now:Pensions (PSL0028); Royal London (PSL0031)
73 Aviva (PSL0020)
74 TPR and FCA, Pensions consumer duty feedback statement, June 2022

difficulties faced by those on low incomes in building up retirement savings.[75]

32. Many witnesses said that the reforms should be phased-in to give employers and individuals time to adjust, given the cost of living crisis.[76] Aviva called for the earnings threshold to be reduced over time, and said the statutory requirement on the Secretary of State to review the threshold annually provided an opportunity to do this.[77] Nigel Stanley, chair of the NEST members' panel (set up to allow NEST to take the views of members into account) said he would rather have "a timetable announced now, even with slow phasing, than just put it off because it is too difficult."[78] The Federation of Small Businesses (FSB) called for an analysis of the impact on small firms, saying that "the current economic environment is very uncertain and both small businesses and individual employers are facing significant cost increases," including the increase in National Insurance contributions from April 2022.[79] Charles Counsell, Chief Executive of the Pensions Regulator (TPR) said experience to date of auto-enrolment suggested that these things can be done with notice and phasing-in:

> We referred earlier to the 2017 review; what we know is that as we increase contributions through phasing—when it went from 2% to 5% to 8% […] In both cases, there was no significant increase in opt-outs, and there was no increase in non-compliance.[…] It seems to suggest to me that you can do these things, and you can make the change through the 2017 review, for instance, and there will not be an increase in non-compliance as a consequence.[80]

33. We heard reasons for the delay in moving forward probably included HM Treasury concerns about the cost of pension tax relief and, particularly recently, economic and fiscal pressures. Darren Philp of Smart Pension said that "we keep calling—I think collectively—on the Government to bring forward proposals." His concern was that the potential cost of the additional pension tax relief to the Exchequer was " probably getting in the way of this consultation."[81] Sir Steve Webb similarly said the reason HM Treasury was "blocking the auto-enrolment review is tax relief."[82]

34. The former Minister Guy Opperman MP said the reason he had "struggled to get the 2017 review over the line was because everybody can see that Government and the country is struggling because of the situation and the burdens that are being placed on it—NI being an obvious example."[83] He argued that he was still on track to implement the reforms by the mid-2020s. His preferred approach to implementing the reforms was by means of a short Bill of two or three clauses, followed by consultation and secondary legislation.[84] In the meantime, he said the Government had frozen the lower earnings threshold in 2022/23, which would help ensure that pension savings would be broadly compared to last year.[85]

75 Trades Union Congress (PSL0061)
76 Royal London (PSL0031); see also Q116 [Jamie Jenkins]
77 Aviva (PSL0020); Pensions Act 2008, s14
78 Q43; Q90 [Joanne Segars]
79 Federation of Small Businesses (PSL0054)
80 Q150; The Pensions Regulator (PSL0043)
81 Q89–90
82 Q127; See also Baroness Drake Q128
83 Q289
84 Q268
85 Department for Work and Pensions (PSL0047)

35. **We support the former Pensions Minister's continued commitment to introducing the recommendations of the 2017 auto-enrolment review by the mid-2020s. It is disappointing that five years on, we have seen no implementation plan or impact assessment. There is almost universal support for these recommendations, which would improve retirement outcomes for many part-time workers, disproportionately women, and for workers in the gig economy. The former Pensions Minister told us he had a two or three clause bill ready to make the necessary changes to legislation.** ***We recommend the Government introduce the necessary legislation no later than the beginning of the next session of Parliament. It must also publish a timetable for consultation on implementation, taking account of cost pressures on employers and workers.***

4 Minimum contribution rates

36. Under auto-enrolment legislation, employers must contribute 3% of 'qualifying earnings' (£6,240 to £50,270 in 2022/23) on behalf of auto-enrolled workers, unless they opt out. Workers must contribute a minimum of 5% (with 1% tax relief reducing the impact on take-home pay).[86] To ease the burden on individuals and employers, minimum contribution rates were phased-in, starting at a total of 3%, increasing to 5% in April 2018 and to the full 8% in April 2019.[87] Most new pension savers under auto-enrolment contribute the minimum 8% (including the employer contribution).[88]

37. The Pensions Commission expected minimum contribution rates of 8% to get median earners to a 45% replacement rate, which it thought was a reasonable aim of public policy: they would need to make additional contributions to reach their target replacement rate of 60 to 66%.[89] However, we heard that there has been little evidence of this additional saving happening.[90] The PLSA thought the cause of this was likely to be "wider economic forces and an extended period of wage stagnation."[91] Jack Jones of the TUC spoke of a "long-term crisis of low pay" which showed that "we need to find ways of getting more money into people's pockets and people's pension pots at the same time."[92] We heard it was also likely to be an outcome of inertia—the very factor that the auto-enrolment policy had harnessed so successfully. The Association of Consulting Actuaries said that "whilst automatic enrolment has been successful in increasing pension participation, we are concerned that this has created a false sense of security amongst many savers, who may be surprised to reach retirement with inadequate levels of savings"[93] This raises the question of whether results could be achieved through better engagement or whether statutory minimum contributions need to increase.

Engagement vs auto-enrolment

38. Laurie Edmans, a member of the Financial Inclusion Commission, argued that "no proper efforts [at engaging savers] had ever been made."[94] Other witnesses agreed on the importance of increasing engagement with pensions but argued that default mechanisms like auto-enrolment were a much more powerful lever. The PLSA said that "increasing contributions is the most powerful lever in creating better retirement outcomes."[95] B&CE, provider of the People's Pension, described engagement as the weakest of the available levers that policy makers could pull: workplace pensions should be set up to provide a good outcome.[96] Will Sandbrook, of NEST, said the evidence "around the gaps between information, advice, guidance, education and financial capability on the one hand, and changes in behaviour on the other" was "challenging": there would be a lot of people who

86 Pensions Act 2008, s20
87 Department for Work and Pensions, Workplace pension participation and savings trends 2009 to 2021, 28 June 2022
88 The Pensions Regulator (PSL0043)
89 Pensions: Challenges and Choices: The First Report of the Pensions Commission, October 2004, p142; A New Pension Settlement for the Twenty-First Century. The Second Report of the Pensions Commission, November 2005, p7 and p132
90 B&CE, Pensions Adequacy in Great Britain, findings from round 7 of the Wealth and Assets Survey, August 2022
91 Pension and Lifetime Savings Association (PSL0040)
92 Q195
93 Association of Consulting Actuaries (PSL0030); Q70; Prospect (PSL0025); B&CE (PSL0041)
94 Q73
95 PLSA (PSL0040)
96 Q292; See also Q191 [Terry Pullinger]; Q148 {Carol Young]

could become "more informed, more educated and have a clear sense of the opportunities available to them, yet none the less do not do anything."[97] The Department for Work and Pensions' (DWP's) 2017 review came to a similar conclusion, saying that an "extensive review of the evidence-base, including international perspectives and discussions with stakeholders, tells us that actions aimed at improving engagement will not in themselves materially change savings behaviour."[98] The former Pensions Minister told us that "the lessons of automatic enrolment are that default is the only way to get big interventions."[99] DWP was working to build its "evidence base to explore decisions on the balance between future changes to auto-enrolment and voluntary saving."[100]

Should minimum contributions increase?

39. We heard from a range of witnesses that contribution rates need to increase and that an increase in minimum contributions was needed to bring this about.

40. Peter Glancy, Head of Pensions Policy at Scottish Widows, said that "for the majority of career journeys that we look at, you need to be looking at 12% to 15% contributions if you are going to have a moderate income in retirement."[101] Chris Noon of Hymans Robertson said 8% was "definitely too low" as it left people "at minimum levels of PLSA retirement living standards, which is broadly pensioner poverty thresholds."[102] The PLSA proposed an increase in the minimum rate of auto-enrolment contributions to 12% by the early 2030s, starting with an increase in the employer contribution rate to 5%, to bring millennials closer to their target replacement rate. This could take place in two phases. In the first, employer contributions should increase by 2% (in 0.5% increments) so that they equalled employee contributions and together amounted to 10%. Then as a second step overall contributions should increase from 10% to 12%, requiring an additional 1% extra from both the employee and employer.[103] The Investment and Savings Association (TISA) made a similar proposal, saying its modelling showed that a contribution rate of 12% of whole salary would "help households achieve a 'moderate' retirement in certain circumstances—commencing on an incremental basis in 2027 and finishing in 2032." It recognised that minimum contributions could only be increased to a certain limit and that the onus must then be placed on individuals to meet potential shortfalls.[104] Proposals along these lines were supported by Legal & General.[105] Prospect described the PLSA's proposal as a pragmatic one that would "reduce the savings gap while maintaining a shared commitment of contributions by both employers and employees."[106]

41. However, we also heard that it was important to consider the interests of workers at different earnings levels. Will Sandbrook of NEST, said the Pensions Commission's analysis had been set around the median earner and that, in considering changing the framework it had put in place, it would be important to consider the position of lower

97 Q101
98 Department for Work and Pensions, Automatic enrolment review: maintaining the momentum, 2017, pp3 and 13; Q294 and Q292 [Guy Opperman]
99 Q294 and Q292
100 Department for Work and Pensions (PSL0047)
101 Q115
102 Q116
103 Pensions and Lifetime Savings Association (PSL0040)
104 The Investing and Savings Alliance (PSL0013)
105 Legal and General (PSL0038)
106 Q42 [Sue Ferns]; Prospect (PSL0025)

earners, for example, those earning closer to £10,000, "12% is quite likely to be, by at least some measures of adequacy, too much."[107] The IFS told us that auto-enrolment participation rates were very high (90%) even among those with little or no savings, who were unable to afford necessities. It thought it was "far from clear" that they should be participating at the same rate as those who were financially more secure.[108] Steven Taylor of the Association of Consulting Actuaries said people wanted to save for things other than pensions—such as house deposits and a resilience fund.[109] Acting Director of Private Pensions at DWP, Joanne Gibson, told us that DWP was doing research on the impact on low earners, with results expected early in 2023, to help it get the balance right.[110]

Employer and employee contributions

42. We heard that, if minimum contribution rates were to increase, there was an important decision to be made on whether they increase for employers or employees, or both. Chris Curry, Director of the Pensions Policy Institute, told us that it, in purely economic terms, it made no difference to the employer where the money came from, because generally higher employer contributions meant lower wage payments. However, he said it made "a very big difference to whether people will opt out": increasing employer contributions while employee contributions stayed the same, would mean a worker who opted out got little money back but would lose a lot of money from their employer.[111] Colin Clarke, Head of Regulatory Change (Product Development) and Workplace DC Pensions at Legal & General, said research it had done with scheme members indicated quite a lot of support for employers paying in as much as the employee does.[112]

43. The TUC called for the focus to be on increasing employer contribution rates "given the prevalence of low pay in the UK economy." Policy and Campaigns officer, Jack Jones, said the TUC had long called for employer contributions to be set at 10%, bringing the total contribution rate to 15%, which was what was "widely accepted as a rule of thumb for what you need for the average worker." However, he accepted this was an ambitious target and said an employer contribution rate of 7% would provide a sufficient base.[113] Sir Steve Webb supported an increase in the employer contribution rate to 5%. He rejected the argument that this would be onerous for employers, saying that there was not another country in the world where workers put in more than their employers: "if we are serious about pensions, we have to get serious money going in—and 3% from the employer is a joke in the long term." He argued that it might in fact be easier to do this in a period of high inflation, when wage rates were increasing, potentially allowing pension contribution increase to be absorbed within that.[114]

44. We heard that an increase in employee contributions might lead to an increase in opt-outs and that the Government should consider a right to 'opt down' to a lower contribution rate. A range of policy issues would need careful consideration: for example, whether the option would only be available to those with earnings below a certain level; whether both employee and employer contributions would be reduced; and mechanisms

107 Q96
108 Institute for Fiscal Studies (PSL0034)
109 Q72
110 Q283
111 Q12
112 Q117
113 Q192 [Jack Jones]; Trades Union Congress (PSL0061)
114 Q132

to allow people to increase their contributions again, when appropriate.[115] The Financial Services Consumer Panel thought this could be "tricky" to implement.[116]

Impact of the cost of living and wider economic circumstances

45. Many witnesses told us that now is not the time to increase contributions, given the cost of living crisis. Tom Blenkinsop of the Federation of Small Businesses (FSB) told us he was concerned given the "considerable economic pressure has been applied to them over the last two years coming out of covid. The number of cost inputs have increased… The other issue is in April the NICs increase has had an impact upon businesses' ongoing costs going forward."[117] Gary Dewin, People Director at the Co-op Group, was concerned about the impact on the well-being of its staff, a large proportion of whom were front-line workers paid in line with the real living wage, many of them part-time, saying he thought both employer and employee would find a 12% contribution rate, shared 6% and 6%, "a stretch, certainly in the next few years."[118]

46. However, we also heard that if contributions are to increase, the Government needs to prepare the ground for it. Age UK called for a "Government strategy with a clear focus on how to increase levels of saving in future. This will require years of planning and work to achieve buy-in from a range of stakeholders, so it is important to start as soon as possible."[119] The Financial Inclusion Commission saw "no sign" that either employers or workers were ready to see their contributions increase and argued that there would need to be a "major" public awareness campaign to "turn the light bulb on" about the need for it.[120] Smart Pension said that "the Government should prepare and build a consensus around any increase so we are ready to phase in the change when economic circumstances are more favourable."[121] The former Minister accepted that he would need to win the argument within Government, taking account of other fiscal pressures and the impact on employers and savers.[122] Jamie Jenkins of Royal London suggested that the implementation of any plan could be made contingent on certain economic conditions.[123]

47. Once any plan to increase contributions had been agreed, employers would need time to prepare it. Tim Jones, Executive Director at Tata limited, said that "large corporations like to be able to see the road ahead and plan for it."[124] Gary Dewin said that organisations like the Co-op were typically working with a three to five-year time frame. One of the constraints would be "how it was tied to pay negotiations, especially in the next few years, because I can see there would be significant pressure."[125] Carol Young, Director of Reward and Employment at Nat West, said they needed "visibility, transparency and a road map."[126]

48. The former Minister pointed to the example set in Australia, where contribution rates are rising to 12%. He said he was an "enthusiastic devotee of the Australian model"

115 Aon (PSL0011); International Longevity Centre UK (PSL0045); Q117; Q96
116 Financial Services Consumer Panel (PAL0064)
117 Q214
118 Q216–7
119 Age UK (PSL0018)
120 Financial Inclusion Commission (PSL0032)
121 Smart Pension (PSL0033)
122 Q266
123 Q117; see also, Financial Services Consumer Panel (PSL0064)
124 Q246
125 Q255
126 Q263

and that "unless someone can explain to me why they have got it fundamentally wrong, that is the route we are going down."[127] There was "no question but that we should drive forward up to 12% in the longer term." The level of employer contributions in the UK reflected a desire to lower the costs for business. For any future increase, the Government would consult on the appropriate balance.[128]

49. **There is a consensus that many people need to increase their pension contributions if they are to have an adequate income in retirement. Many told us that minimum contribution rates needed to increase above 8% if this was to happen. We welcome the former Pensions Minister's aspiration to work towards a 12% minimum contribution rate, as in Australia. There are good arguments for starting with an increase in employer contributions to 5%, level with employees. And any move to increase contributions should aim to increase pension saving for the right people at the right time. We welcome the fact that DWP is doing research to understand the impact on low earners.**

50. **The middle of a cost of living crisis is not the time to ask people to pay more into their pension. However, if they are to do so in future, work to prepare the ground needs to start now to build consensus on the need for change among employers and the wider public.** ***As a first step, the Government should say whether it considers an increase in minimum contributions possible in the foreseeable future. If not, it should explain how it intends to address the challenge of many people being on course for retirement incomes they will not think adequate.***

Ways to target policy

51. The Institute for Fiscal Studies told us that any future changes to automatic enrolment should be well-targeted.[129] We heard that consideration should also be given to default ways of encouraging those likely to gain from saving more to do so: for example, through Save More Tomorrow schemes, where people commit in advance to allocating a proportion of their future salary increases towards retirement savings.[130] We heard that these were more likely to be offered by large employers, who have more capacity to deliver them.[131] Carol Young said this had been successful at NatWest:

> Every April, in line with changes to tax rates and changes to our pay review kicking in, we have what we call a Save More Tomorrow programme, where we auto-enrol everyone who is saving less than 12% to save 1% more. That has been stickier and more effective than any engagement activity we have undertaken. That has moved and doubled the average contribution rate in four years.[132]

52. Tim Jones, an Executive Director of Tata Limited, said that "in general our larger companies already do more than the statutory minimum and are involved in things like auto-escalation. Jaguar Land Rover has recently had a very successful auto-escalation

127 Q288; The Australian Superannuation guarantee requires employers to pay a percentage of their employees earnings into their superannuation fund each year. From July 2021, this percentage started to rise from 9.5% in half per cent increments each year until it reaches 12% in 2025.

128 Q283

129 Institute for Fiscal Studies (PSL0034)

130 Richard H Thaler and Shlomo Benartzi, Save More Tomorrow: Using Behavioural Economics to Increase Employee Saving, Journal of Political Economy, 2004

131 Q96

132 Q218

thing running. It does a lot of engagement but…it is the defaults that drive significant change."[133] There was support for looking at extending such schemes as an effective way to get contribution rates up.[134]

53. The 2017 review concluded that such approaches could be effective but there were "significant delivery challenges associated with implementing these techniques at scale and the current evidence base for intervention remains limited."[135] The IFS recommended that the Government run trials to find out how people respond to these policies and what their effect on wealth accumulation is.[136] The Government had said in 2017 that it was keeping the issue under review.[137]

54. **In addition to any increase in the statutory minimum, we have been persuaded that there is scope to expand the use of targeted ways to improve outcomes or increase contributions.** ***We recommend the Government commit to a trial of auto-escalation schemes, such as Save More Tomorrow (where people commit in advance to paying part of future salary increases into their pension), with a view to understanding how the use of such schemes might be extended to a wider range of savers and employers.***

People who gain little from any future increase in minimum contributions

55. In any case, there are some people who would see limited gains from any longer-term increase in minimum contribution rates, for example, because they are not auto-enrolled due to low earnings or are not in paid employment. As previously discussed, people in generation X without access to defined benefit pension saving are at particular risk of inadequate retirement incomes. Chris Curry told us it was difficult to see what measures would substantially help them, unless it took the form of a "direct intervention through the state."[138]

56. Office for National Statistics (ONS) figures published on 17 June 2022 showed that almost a third of working age people did not expect to have any pension provision beyond the State Pension when they retired. Some groups approaching State Pension age and yet to retire had relatively low average wealth of any kind, for example, black, mixed or other ethnic groups while others had higher net property wealth (for example, Asian and self-employed groups).[139]

57. The PLSA argued that the State Pension should be set at a level to protect pensioners from poverty and ensure they do not fall below a minimum level:

> Given that the State Pension makes up the majority of most people's retirement income, and given that wage growth has been weak in the last 15 years (including periods of real wage decreases) it will be harder for people to save for an adequate private and occupational pension.[140]

133 Q218
134 Q140 [Sir Steve Webb]; Q194 [Jack Jones]
135 Department for Work and Pensions, Automatic Enrolment Review 2017: Maintaining the Momentum, December 2017, p14
136 Institute for Fiscal Studies (PSL0034)
137 Department for Work and Pensions, Automatic Enrolment Review 2017:Maintaining the Momentum, December 2017
138 Q5
139 Office of National Statistics, Saving for retirement in Great Britain: April 2018 to March 2020, 17 June 2022
140 Pension and Lifetime Savings Association (COL0035)

In 2022/23, the State Pension is £9,630 a year, whereas the PLSA's minimum living standard is £10,900 a year. The PLSA commented that the Government's decision to suspend temporarily the earnings element of the triple lock in 2022/23 (with the result that it was uprated by 3.1% in April 2022, when inflation had already reached 9%) had resulted in a 5.9% loss in pensioner purchasing power this year. It said the triple lock was a vital increase mechanism and welcomed the Government's commitment to reinstating it for 2023/24. It argued that there was a "strong case to align the State Pension with a minimum income standard."[141]

58. Baroness Drake said that the decline of DB brought the importance of the State Pension centre-stage as it formed the foundation for private saving: " If you let the state pension fall, then the value of your pension savings falls, because you are just paying to cover the fall in the state pension."[142]

59. **People in generation X and older without access Defined Benefit pension saving will have had limited time to build up pension savings through auto-enrolment and are therefore at risk of not hitting their retirement adequacy targets. *We recommend the Government should consult on a plan to address this challenge and report back to us by March 2023.* According to the Office for National Statistics, almost a third of working age people do not expect to have any pension provision beyond the State Pension when they retire. *Given the importance of the State Pension to the retirement income of many people, we recommend the Government should expressly commit to the continuation of the triple lock.***

141 Pension and Lifetime Savings Association (COL0035)
142 Q128

5 Self-employed people

60. The duty to auto-enrol applies to employers in relation to workers, but not to self-employed people.[143]

Trends in self-employed pension saving

61. In its 2005 report, the Pensions Commission identified the self-employed as a group for whom pension provision had always been deficient and for whom levels of saving were not increasing.[144] The then Government decided that the self-employed were best placed to decide how much they should save.[145] A series of reports since then have highlighted concerns about, and proposed solutions to, declining rates of pension saving for this group.[146] This included the Department for Work and Pensions' (DWP's) 2017 auto-enrolment review, which identified the "large proportion of the self-employed [experiencing] significant gaps in pension coverage and other savings for retirement" as a "significant and complex strategic problem."[147]

62. The Institute for Fiscal Studies (IFS) told us that "fewer than one-in-five self-employed people currently save in a private pension. This is a substantially smaller proportion than among current employees, and a substantially smaller proportion than among the self-employed in the late 1990s," when it was around 48%.[148] In December 2021 the National Employment Savings Trust (NEST) said that around 4.3 million people in the UK were in some form of self-employment but that only an estimated 16% were actively saving in a workplace or personal pension, compared to 88% of employees eligible for auto-enrolment.[149]

63. Asked about the reason for this decline, Chris Curry said it was difficult to understand what was driving this trend.[150] Carl Emmerson said the IFS had expected the cause to be lots of people becoming self-employed for a short period, who were on a low income, but this was not what it had found:

> The drop in coverage was most prevalent among higher-income self-employed people—they are not that well off, but they are better off than other self-employed people—and was much bigger among people who had been self-employed for quite a while, seven years or more. It was long-tenured and—in relative terms—better-off self-employed, because they were the ones who used to be in pensions and their coverage rates have fallen the most.[151]

143 Pensions Act 2008, s1 and 3
144 The First Report of the Pensions Commission, October 2004, p165
145 DWP, Personal accounts: a new way to save, CM 6975, Dec 2006, para 1.25–7
146 PPI, The under-pensioned 2016, March 2016; Royal London, Britain's forgotten army, April 2016
147 Department for Work and Pensions, Automatic enrolment review 2017: Maintaining the Momentum, December 2017, p7
148 Institute for Fiscal Studies (PSL0034); Rowena Crawford and Heidi Karjalainen, Retirement saving of the self-employed, 16 October 2020
149 NEST, Innovative pilots explore flexible ways for self-employed people to save for retirement, December 2021
150 Q6
151 Ibid Q30

64. Peter Glancy, Head of Pensions Policy at Scottish Widows, suggested one reason might be changes introduced by the Financial Service Authority's Retail Distribution Review[152] which had removed commission payments to financial advisers from product providers:

> I am absolutely not suggesting that we go back to that regime—there was a lot of money taken out of people's pension pots and paid in commission—but that is, I think, the reason that it has fallen away. There is nobody giving those products a hard sell anymore and the self-employed are not going to persuade themselves to buy the product. That takes you back to where we got to with employed people: you probably need a statutory default. However, I would be getting the self-employed to think, "I employ myself," rather than, "I work for myself."[153]

65. Executive Director of Markets at the FCA, Sarah Pritchard, told us she did not think there was "anything that stops financial advisers promoting pension products to the self-employed, provided that they comply with the requirements around advice, including suitability." She did not have an alternative explanation for the fall in self-employed pension saving.[154]

Issues to address

66. We heard that finding a way to increase pension saving by self-employed people was challenging because they were not a homogenous group DWP told us that not all self-employed people were under-saving: "self-employment is highly diverse: incomes, assets, retirement savings and employment experiences vary widely and we recognise one solution would not necessarily fit all."[155] The IFS told us that it was:

> striking how little is currently known about the retirement saving of the self-employed—questions such as how saving changes through working life as they get older, how saving responds to years of relatively good or bad earnings, how pension behaviour changes when someone moves from being an employee to being self-employed, or how responsive the self-employed are to tax incentives to save.[156]

67. Anna Mowbray, Research and Policy Officer at Community Trade Union, told us that the approach to pension saving that worked for employed people did not always seem suitable for their self-employed members, who said they needed access to their money to invest in their business and for unexpected bills. They had "fluctuating incomes, so setting aside a particular amount every month is not necessarily realistic or practical for them. She told us that the "sidecar savings" model trialled by NEST, which allowed some saving to be accessed early, suited the needs of some self-employed people who might be concerned about having to lock away all their saving until retirement when "you do not necessarily know what is going to be coming in at certain times and when you might need

152 The Financial Conduct Authority explains in its Post-implementation review of the Retail Distribution Review (RDR) published in December 2014 that the RDR was launched by its predecessor body, the Financial Services Authority to make the retail investment market work better for consumers

153 Q123

154 Q182–5

155 Department for Work and Pensions (PSL0047)

156 Institute for Fiscal Studies (PSL0034)

it."[157] The FSB told us that there needed to be "an incentive for the self-employed to save for retirement, which acknowledges the volatility of self-employed incomes."[158]

The need for a mechanism like auto-enrolment

68. NEST and DWP have been carrying out research and trialling activities to help build the evidence base to identify the most effective way to make retirement savings easier for self-employed people.[159] Will Sandbrook of NEST told us that what they had found so far is that there were "some messages that resonate well with the self-employed, particularly highlighting the presence of tax relief" and there were "certain design features that we believe would make pension saving more attractive to the self-employed, including highlighting flexibility around contributions." He expected that "these are all things that may well have an impact at the margin:" to deliver a step change of the kind auto-enrolment had been for employed people, the most fertile area for exploration was "around the digitalisation and real-timing of tax as we move towards a world in which self-employed tax filings are more frequent." However, he cautioned that this would not be straightforward:

> we have to accept that automatic enrolment works as it does because there is a third party—the employer—who is able to act kind of in loco parentis in setting up the account and creating the income deferrals. For the self-employed there generally isn't that third party, at least not in any consistent way, so it is very difficult to see how to create the same conditions.[160]

69. DWP told us it had been working with HMRC and pension providers to test targeted interventions, exploring ways to 'nudge' self-employed people to save in a pension at key points.[161] However, the former Minister told us that his conclusion from the lessons of automatic enrolment was that "default is the only way to get big interventions." You could offer great products but "the practical truth is that far too few members of the Great British public take them up because it's a voluntary choice."[162] In his view, the way to introduce a default was finding a way, once HMRC had fully constructed Making Tax Digital (MTD), to make automatic deductions from earnings into an auto-enrolment pot "by way of your tax return."[163] Acting Director of Private Pensions, Joanne Gibson, told us that DWP would work with HMRC and software developers to see if something like auto-enrolment could be taken forward through MTD, once that was up and running.[164] This approach was supported by former Pensions Commissioner, Baroness Drake, who described the evidence as "pretty overwhelming":

> People do not actively engage; inertia always kicks in. That is not an argument for not encouraging active engagement or making good decisions, but if

157 Q202
158 Federation of Small Businesses (PSL0054)
159 Department for Work and Pensions (PSL0047); Automatic enrolment review: Maintaining the Momentum, December 2017
160 Q104
161 Department for Work and Pensions (PSL0047)
162 Q292; Q294
163 Q294
164 Q295; Making Tax Digital (MTD) is HMRC's strategy to implement digital accounts for businesses and the self-employed. MTD for income tax will apply to individuals from April 2024 if their gross income from self-employment and property exceeds £10,000 a year. Businesses will need to send a quarterly summary of their business income and expenses to HMRC using MTD-compatible software

> you want to get mass coverage or a substantial reaction, you have to get as near to auto-enrolment as possible. You have to remove as many barriers as possible and almost create it as default that you are saving unless you actively engage not to. That leads those self-employed workers to HMRC and using the tax system to do it. I just can't see how else you could do it.[165]

Charles Counsell, Chief Executive of the Pensions Regulator, also agreed that "the most likely way to get the self-employed saving for pensions" was through the annual tax return.[166]

70. The Federation of Small Business had concerns. It did not think that self-employed people should be automatically enrolled because, for many, "part of the attraction of being self-employed is the freedom to make financial decisions for themselves," so auto-enrolment could be counterproductive. It suggested trials of various options to provide further insights into the issue before decisions were taken.[167]

Financial incentives

71. We also heard that the auto-enrolment employer contribution was an important incentive for workers to participate in pension saving and that something similar might be needed for the self-employed.[168] Royal London suggested said it would welcome "further work to look at a more strategic solution for the self-employed," citing as an example a proposal it had made in 2016 to mirror the automatic enrolment scheme for employees by increasing the main rate of Class 4 National Insurance contributions (NICs), but allowing the self-employed to specify that this money should be directed into a nominated pension.[169] Royal London proposed that, in line with the policy for employees, the main rate of class 4 NICs paid by self-employed people on profits between £11,908 and 50,270 would be increased by3% from 9% to 12%. Self-employed people would be able to elect to have these additional contributions paid into a pension, provided that they also contributed at a specified level: a minimum gross contribution of 5% (including tax relief).[170] This would mirror the way auto-enrolment works for employees, where contributions are made at a rate of 8% (3% employer, 5% employee, including tax relief) on a band of 'qualifying earnings' (between £6,240 and £50,270 in 2022/23).[171] The ABI supported an approach along the same lines.[172] In July 2022, Michael Johnson, a research fellow at the Centre for Policy Studies, wrote to us with a proposal to default payers of Class 4 NICs into a self-employed ISA (rather than a pension) with a minimum of 3% contribution retirement. If they were to opt out of the default an additional 3% would be added to their NICs

165 Q131
166 Q184
167 Federation of Small Businesses, PSL0068
168 Q202 [Anna Mowbray]
169 Royal London (PSL0031); Royal London, Britain's "Forgotten Army": the collapse in pension membership among the self-employed—and what to do about it, April 2016
170 Royal London (PSL0031); The rate of NICs (Class 1 and Class 4) increased by 1.25% in April 2022 to fund an investment in the NHS and social care (para 5.28). For self-employed people, this meant an increase in the main rate of Class 4 NICs from 9% to 10.25% and in the additional rate from 2% to 3.25% (HM Treasury, Autumn Budget and Spending Review 2021, October 2021, para 5.28). The new Prime Minister, the Rt Hon Liz Truss MP, has said she intends to reverse the NI increase (HC Deb 7 September 2022 c231)
171 The Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2021 (SI 2021/314); DWP, Review of the automatic enrolment earnings trigger and qualifying earnings band for 2022/23: supporting analysis, February 2022
172 Association of British Insurers (PSL0036)

payments to HMRC. He argued that this "opportunity to be creative" arose because the self-employed had access to the same state benefits as the employed (including the State Pension), but those with annual profits exceeding £11,909 paid 3% less in Class 4 NICs.[173]

72. This issue was considered as part of DWP's 2017 automatic enrolment review, which expressed concern that an increase in self-employed NICs would represent a very significant change and would impact on all self-employed people, not just the target group for auto-enrolment. It argued that self-employed people should be "encouraged to consider pension contributions as one of their core business costs and, consequently build this into their charging structure." Tax-relief on pension contributions already represented a financial incentive.[174]

73. The Economic Secretary to the Treasury, Richard Fuller, told us that HMRC had "no current plans to introduce a facility for automatic enrolment into pensions as part of MTD delivery" and was "not actively considering automatically enrolling the self-employed via the NIC system." He added that "HMRC systems are not designed to collect or administer pension contributions; it would present a significant challenge as new ones would be required. This would prove to be difficult at a time where the Government is already delivering major projects to modernise the administration of tax and pension savings." As regards the proposal to increase Class 4 NIC, he said the Government was "committed to keeping taxes low to support working people to keep more of what they earn and to encourage individuals to progress, ensuring work always pays…it would not be appropriate to raise Class 4 NICs at this time."[175]

74. **The number of self-employed people saving in a pension has declined since the late1990s when it was around 48%, to around 16%. This is in stark contrast to the 88% of workers eligible for auto-enrolment participating in pension saving. Trials to encourage self-employed people into pension saving have not been effective. The former Minister for Pensions told us that the "lessons of automatic enrolment are that default is the only way to get big interventions" and that the aim was to trial this once Making Tax Digital was up and running. The employer contribution has also been key to the success of auto-enrolment for employees, providing an incentive to participate.** ***We recommend that HM Treasury and DWP work together to: (a) set a date to trial ways to default self-employed people into pension saving and; (b) consult on the proposal to increase the main rate of National Insurance paid by the self-employed (Class 4) by 3%, with the option to have the increase paid into a pension if the self-employed person also contributes 5% (including tax relief). Alongside that, the Government should consider how to promote pension saving to self-employed people.***

173 Michael Johnson (PSL0074). The main rate of Class 4 NICs is 10.25%, while employees pay Class 1 NICs at a rate of 13.25% on earnings between the primary threshold and upper earnings limit (Gov.UK National Insurance rates and categories)

174 Department for Work and Pensions, Automatic enrolment review 2017: Maintaining the momentum, December 2017, p20

175 Letter from Economic Secretary to the Treasury to Chair, 31 August 2022

6 Gig economy workers

75. Witnesses pointed out that gig economy workers, who have been classed as self-employed by their employers, share characteristics with others in low-paid, precarious employment.[176] Darren Philp of Smart Pension told us that it was important to get clarity on the dividing line between self-employed and worker status: "a lot of the characteristics of gig economy workers are very similar to people in retail, hospitality and catering. It seems to me that, ultimately, that is an employment law issue and we just need to get the dividing line right on that."[177] Jack Jones, policy and research officer at the TUC, argued that there had been an "increase in bogus self-employment in people who should be classed as workers or employees." Trade unions had had to take legal action establish worker status, as in the case of Uber.[178]

76. In Uber BV v Aslam [2021] UKSC 5, the UK Supreme Court found that Uber drivers were 'workers' for the purpose of the s54 of the National Minimum Wage Act 1998. The judgment did not explicitly mention pensions rights. However, the definitions of "worker" and "contract of employment" under the Employment Rights Act 1996 are broadly the same as under the automatic enrolment legislation—the Pensions Act 2008.[179] Following the judgment, commentators questioned whether it would "open the doors to auto-enrolment for all gig workers."[180] However, as discussed below, the evidence we received suggests this has not been the case so far.

How auto-enrolment applies in the gig economy

77. In response to the Supreme Court judgement, Uber announced in September 2021, that its drivers would be auto-enrolled into a pension scheme provided by NOW: Pensions and Adecco. Director of Uber's operations in Northern Europe and Great Britain, Jamie Heywood, told us that working out how to apply auto-enrolment to gig economy workers had not been straightforward:

> When we started the process of looking to roll out pensions within the gig economy, because of the variable nature of contributions and they are varying by week, we did not have that many providers who were able to meet the stringent requirements that we had because it is not traditional.[181]

Uber explained that it had worked closely with the Pensions Regulator (TPR) and NOW:pensions and Adecco to "build a scheme that worked for drivers on our app and didn't compromise the flexibility they value, whilst adhering to TPR's expectations around compliance with pensions regulations."[182] One of the issues it had had to work through was how to apply the £10,000 earnings trigger given that drivers can work for just one

176 The term 'gig economy' is used to refer to a wide range of different types and models of work. A common feature of many of these is a reliance on intermediary digital platforms or apps to connect self-employed workers with work (Work and Pensions Committee, Thirteenth Report of Session 2016–17, Self-employment and the gig economy, HC 847, p4)

177 Q105; Smart Pension (PSL0033)

178 Q204

179 Pensions Implications of the Uber judgment, Gillian McCue, Blake Morgan, 24 Feb 2021

180 Supreme Court Uber ruling a step towards 'opening the doors' to AE for all gig workers, Pensions Age, 19 Feb 2021

181 Q241

182 Uber London Ltd (PSL0072)

week in a year, or for twelve months of the year, completely at their discretion. It had decided to break down the £10,000 to £192 per week. Once someone earned above that level in a week, they qualified.[183] It now has approximately 97,000 drivers enrolled.[184]

78. Uber said, having created a model that can be followed across the sector for similar workforces, it had invited other operators to join the scheme, but as yet none had done so.[185] The result was a confusing situation for drivers working across multiple apps:

> […] a driver who is on one trip with Uber will earn holiday pay and pension rights on that trip. The next trip that they pick up, which could be two minutes later and may be with a competitor, they would have no comparable rights for holiday pay and pensions.[186]

The GMB trade union estimated that there are "around 200,000 private hire drivers without access to worker protections to which they're entitled, including a pension."[187]

Enforcement

79. Jamie Heywood told us he thought the legislation was clear for the taxi and private vehicle hire industry following the Supreme Court decision. His personal view was that other operators in the sector were operating "similar models" to that operated by Uber now and at the time of the Supreme Court judgement in 2016. He argued that the difficulty was enforcement.[188] In later written evidence, Uber told us that the fact that "no other major app-based operators" had followed its lead, highlighted "the importance of having legislative certainty on the obligations of operators to drivers, such as through an Employment Bill."[189]

80. Chief Executive, Charles Counsell, told us TPR was continuing to work with gig economy employers other than Uber, and hoped this would result in a further 150,000 to 200,000 people being automatically enrolled into pension schemes.[190] Jack Jones of the TUC said this was a "small proportion" of the gig economy, the size of which was difficult to estimate accurately.[191]

81. Mr Counsell explained the challenges TPR faced in enforcing the pension rights of gig economy workers. He did not "consider that the legal position of workers is clear, whether those individuals operate in the taxi and private hire industry, or more generally across the gig economy": while TPR welcomed the Supreme Court analysis in the Uber case, "the circumstances of an individual's employment, including the terms and conditions they operate under, [made] satisfying the 'worker' test under [section 88 of the Pensions Act 2008] entirely specific to the facts of each case."[192] Employers routinely challenged its approach, claiming that "only the actual litigants of the ET's decision are affected by

183 Q236
184 Uber London Ltd (PSL0072)
185 Q216
186 Q237
187 Uber London Ltd (PSL0072); GMB and Uber pledge to end exploitation of more than 200,000 drivers, GMB press release, 26 August 2021
188 Q244 and Q250
189 Uber London Ltd (PSL0072)
190 Q175
191 Q205
192 Letter from Charles Counsell to Chair, 1 July 2022

the outcome, and/or that the terms and conditions are now different (usually re-cast to emphasise self-employment), or that pension rights are not included in the decision."[193] Employers seeking to access TPR's determinations can do so by appealing to a First or Upper Tier Tribunal.[194] TPR told us it faces a significant evidential burden in such proceedings. In a case last year, a First Tier Tribunal had determined that it "could not directly adopt the Employment Tribunal's decision on worker status, forcing TPR to seek new, separate and/or fresh evidence in support of our contention as to worker status."[195]

82. We have called twice on the Government previously to bring forward its long-promised Employment Bill, including measures to protect those in low-paid work and the gig-economy, arguing that it is "imperative that the definition of employment is updated and clarified to ensure that workers enjoy the legal status that they are entitled to."[196] We were therefore disappointed that Department for Business, Energy and Industrial Strategy (BEIS) announced on 26 July 2022 that it did not intend to change the law on employment status. Although it recognised that the "boundaries between the different statuses can be unclear for some individuals and employers" and that "reform could help bring clarity in the long term," it had decided that "it might create cost and uncertainty for businesses in the short term, at a time where they are focusing on recovering from the pandemic."[197] Instead, it had decided there was a need for "enhanced detailed guidance to help people work out which category they fall into and to demystify case law from the courts."[198] The guidance, which was published in July, brought employment status case law together in one place.[199]

83. TPR told us that the new guidance would be a useful document to refer to as part of TPR's discussions with employers and during relevant enforcement proceedings. However, it did not offer "any new or expanded definition of 'worker status.' It did not change the law and was not legally binding. TPR's experience was that "gig employers used the courts to challenge [its] enforcement decisions on worker status at every level." It expected this to continue:

> Despite the BEIS guidance adding clarity, we believe we are still likely to see employers challenge enforcement decisions through the First Tier (FTT) and Upper Tribunals (UT), and on a case-by-case basis, we still need to evaluate decisions from employers that don't declare themselves as employers with HMRC. Furthermore, this guidance is directed at the assessment of status in relation to employment rights and while TPR can cite employment law decisions as persuasive, the FTT has determined that it cannot directly adopt the decisions of the Employment Tribunal, meaning that the FTT and UT must form their own decisions, taking into account the circumstances of any individual case.[200]

193 Ibid
194 Pensions Act 2008, s44
195 Ibid
196 Work and Pensions Committee, DWP's preparations for changes in the world of work, First Report of 2021–22, 23 June 2021, para 37; DWP's response to the coronavirus outbreak, First Report of Session 2019–21, 22 June 2022, para 193
197 HM Government, Employment Status consultation. Government Response, 26 July 2022
198 Ibid p29
199 Department for Business, Energy and Industrial Strategy, New guidance brings clarity on employment status for workers and businesses, 26 July 2022
200 Letter from Charles Counsell to Chair, 1 September 2022

84. Uber welcomed the further clarity provided by the guidance but called on the Government to legislate for an enforcement mechanism, for example, through a single enforcement body.[201] It said that "reliance on a patchwork of lengthy and expensive legal proceedings, plus a lack of consistent application of existing case law" meant drivers lost out and the UK lost the chance to take a "principle-based approach to this policy area."[202] The GMB also called for "the creation of an independent body" which could undertake governance of contracts and make rulings.[203]

85. **We are concerned that many people working in the gig economy may be missing out on their right as a worker to build up a pension through auto-enrolment. The Pensions Regulator (TPR) told us it faces considerable challenges in enforcement, with employers challenging its decisions at every stage and having to meet a high evidential burden at tribunals. The Department for Business, Energy and Industrial Strategy issued guidance on 26 July 2022, bringing together existing case law. TPR told us that while this new guidance would be helpful to refer to in its discussions with employers and at tribunals, it would still need to evaluate decisions from employers on a case-by-case basis and argue its case at tribunal. We heard from Uber and the GMB that better enforcement arrangements are needed to ensure workers get their pension rights. *We repeat the recommendation made in two previous reports* that *the Government should bring forward an Employment Bill for parliamentary scrutiny as soon as possible to increase the legal protection available to people in low-paid work and the gig economy. In the meantime, we recommend that DWP should work with TPR to estimate how many people working in the gig economy should be classed as workers and what resources or powers TPR needs to be able to ensure employers in the sector comply with their auto-enrolment duties. They should report back to us by March 2023.***

Auto-enrolment of workers who do not meet the legal definition

86. Charles Counsell told us that while there was a statutory definition of a worker, it found that there were "gig economy employers who have contractual mechanisms in place with their workers who do not come under that definition. For me, that is where we need to encourage those employers to do the right thing for their workers in any case."[204]

87. The GMB argued that it was important to find ways to get low paid workers auto-enrolled as far as possible, regardless of whether they met the legal definition of worker or not:

> Either way these workers are denied a pension, this in our opinion is a growing ticking time bomb where millions of workers will not be able to have enough income throughout retirement and may be reliant on benefits in old age [...] GMB believes that all workers irrespective of classification or status should have the same basic rights and benefits.[205]

201 One of the recommendations of Matthew Taylor's 2017 Good work review was that the Government should "make the determine of employment status fairer to the individual by making it easier for them to get an early determination from the court without having to pay employment tribunal fees (subject to certain safeguards) and flipping the presumption subject to certain protections so that it is for the employer to show that a particular employment relationship does not exist." (p64)

202 Uber London Ltd (PSL0072)

203 GMB Union (PSL0067)

204 Q175

205 GMB (PSL0067)

It was concerned that some companies or sectors that wanted to offer pensions to those they viewed as genuinely self-employed might be "prevented from doing so by legal advice that says that if a company or sector provides a pension then they may receive legal claims for employed/worker status." GMB also believed that the development of "sectoral pensions" available to companies in a particular sector who wanted to auto-enrol people working for them, was the "best way to advance those workers currently excluded from pensions into having [one]."[206]

88. **We support TPR's efforts to encourage gig economy employers to offer pensions to those workers who do not come under the definition in the Pensions Act 2008.** ***We recommend that DWP explore what steps could be taken to support this, including through the development of sectoral pension schemes, available to any employer in a sector that wants to use it.***

206 Ibid

7 The gender pensions gap

The scale of the problem

89. Age UK told us that the "gender pensions gap remains a serious problem."[207] Prospect argues that the "first step in addressing inequality in retirement income by gender is to understand the scale of the problem." It says that "no government department or agency produces official statistics on the size of the gender pension gap", reducing the profile of the issue and making it difficult to track progress.[208] To address this lack of official statistics, it has produced its own definition—the % difference in average gross pension income (State and private) for both men and women receiving the State Pension—and an annual report on the size of the gap since 2018. Its 2021 report estimated it to be 37.9% and said there had been "little sustained progress in tackling this issue over the period that we have reported."[209] NOW: Pensions has produced a series of reports, concentrating on differences in private pensions. Its 2022 report said that the gender gap in private pension wealth had widened since its first report in 2019:

> […] while the average UK pension pot has almost doubled to £111,600, women's savings had hardly increased at all. In fact, if inflation and the cost of living are taken into account, women are arguably in a worse position than before … by the time women reach age 65, they will typically have £69,000 saved into their pension pots. This is £136,800 less than the average man, who will have saved £205,800.[210]

90. The former Pensions Minister told us that the gender pension gap could be measured in a number of ways and referred to differences in the auto-enrolment participation rate and pension pot size for men and women aged between 16 and State Pension age.[211] However, it is questionable that these measures capture what is needed. For example, women may participate in auto-enrolment but not save as much as men over working life. And measuring the size of pension pots for all men and women of working age obscures the fact that the gender pension gap is bigger for older women than younger.[212]

91. **There is no consensus on how gender pension gap should be defined or any target to reduce it. Reports produced by stakeholders to inform the debate suggest the gap is significant and that little sustained progress is being made to reduce it. *We recommend that the Department for Work and Pensions work with colleagues across government and other stakeholders to agree a definition of the gender pension gap and a target to reduce it.***

Causes

92. There is agreement that the main cause of the gender pension gap is differences in labour market participation and pay. DWP told us that the gender pension gap was "mainly caused by inequality in the labour market, including differences in working patterns and

207 Age UK (PSL0018)
208 Prospect (PSL0025) and Tackling the gender pension gap, 2 September 2021
209 Ibid, para 42–3
210 NOW:Pensions, The Gender Pensions Gap Report 2022, June 2022; Now Pensions (PSL0028)
211 Letter from Pensions Minister to Chair, 26 August 2022
212 NOW:Pensions, Facing an unequal future, July 2019

earnings."[213] Prospect told us that differences in labour market activity by gender had a particular impact on workplace pension entitlement:

> Far more women than men are economically inactive because of caring responsibilities. While credits can protect state pension entitlement to take account of caring responsibilities, it is likely that people in this position are missing out on accruing benefits in an occupational pension scheme with their significant consequences for their income in retirement. Similarly, far more women than men work part-time as a result of caring responsibilities which also has a significant impact on the occupational pension they build up.[214]

NOW:Pensions said its research showed that this was the result of a number of factors, including the fact that women are disproportionately likely to be in lower paid, part-time roles and more likely to take a career break due to caring responsibilities.[215]

The argument for a carers' credit

93. We heard that if the main cause of the gender pension gap is in labour market inequalities, this needs to be addressed directly for the gap to reduce. Baroness Drake told us that a feature of the pre-2016 State Pension had been that carers were credited-in to earnings-related provision through the State Pension. This important principle had been lost when the new State Pension was introduced:

> The argument is put that the State Pension has been flat-rated but made more generous, and women can accrue that more quickly. That may be the case, but because they are caring—it is an economic activity; that is accepted—they have still lost out on the ability to accrue an entitlement under the second-tier pension, which is a principle they had under the state system. We should have that principle back. It was fought for.[216]

She argued for a system of carers' credit to be put in place, either through the State Pension system or to an auto-enrolment account.[217] Former Pensions Minister, Baroness Ros Altmann, agreed that we should "find a way to credit women for extra pension while they are caring."[218]

94. The former Pensions Minister, Guy Opperman MP, told us that it was a legitimate question for the Government to look at how to "fix that gap": he said there were different options, one being "a policy system that allows for caring responsibilities to be remunerated in pension contributions" but that there would then be " a world of complications about who pays for this."[219] Pensions consultants, Hymans Robertson, for example, proposed a system of automatic enrolment contribution credits, analogous to State Pension credits, reflecting the fact that people caring for children or elderly relatives were adding value to

213 Department for Work and Pensions (PSL0047); see also Prospect (PSL0025); Aegon (PSL0012); NOW: Pensions (PSL0028); Institute for Fiscal Studies (PSL0034); Pension and Lifetime Savings Association (PSL0040)
214 Prospect (PSL0025)
215 NOW:Pensions (PSL0028)
216 Q133; For more on the background, see House of Commons Library, Women and pensions, section 3.4
217 Q133
218 Ibid
219 Q318

society. It said that although this would be a significant cost to the Government, "time away from work is the biggest contributor to the size of the Gender Pension gap and needs to be addressed."[220]

95. ***We recommend the Government consider the case for a carer's credit, for example, to their auto-enrolment pension. If it chooses not to do so, it must explain its alternative plan to address the gender pension gap mainly caused by labour market inequalities.***

Impact of the £10,000 earnings trigger for auto-enrolment

96. In the meantime, there are other changes that witnesses told us would help reduce the gender pensions gap. A much-debated question was whether the auto-enrolment "earnings trigger" was set too high. This is the level of earnings at which employers are required to auto-enrol workers and is currently set at £10,000.[221] It was originally intended to be set at a lower level. The Pensions Commission suggested this should be aligned with the primary threshold for National Insurance (NI) and that contributions should start to be paid from the same level.[222] However, the Coalition Government legislated in the Pensions Act 2011 for the earnings trigger to be set at a higher level, which it intended would be broadly aligned to the personal allowance for income tax.[223] The same legislation also required the Secretary of State to consider each year whether the earnings trigger and the limits of the qualifying earnings band on which contributions are paid should be increased or decreased.[224] Although, after the 2011 Act was passed, the earnings trigger initially rose in line with the income tax personal allowance, it has been frozen at £10,000 since 2015/16.[225]

97. The 2017 review looked at where the earnings trigger should be set but said there was "no clear consensus from stakeholders." Lowering it would bring in more low earners, predominantly women, but would lead to significant costs for employers and government in the form of tax relief and also risk bringing in greater numbers of individuals for whom it might not make economic sense to save, because it would divert income from their day-to-day needs.[226]

98. DWP said that it reviews the auto-enrolment thresholds annually and that freezing the earnings trigger again in 2022/23 would "bring 17,000 more people into pension saving, many of whom will be women and low earners."[227] However, we heard arguments that, while it has been frozen for a number of years, the trigger is still set too high. NOW:Pensions argued for its removal, to capture more low earners, who are disproportionately women, in auto-enrolment.[228] The Chair of its Board of Trustees, Joanne Segars, told us

> If we think about the groups that are missing out still [...] 3 million people are locked out of auto-enrolment, mostly because they earn too little; they simply do not hit that £10,000 earnings cap. For us, it is about making sure

220 Hymans Robertson (PSL0050)
221 Pensions Act 2008, s3
222 The Second Report of the Pensions Commission, November 2005, p355 and p276
223 Making automatic enrolment work - a review for the Department for Work and Pensions, October 2010, section 5.2; Pensions Act 2011, s5
224 Pensions Act 2011, s8
225 Pensions Act 2008, s1 and 3
226 Department for Work and Pensions, Automatic enrolment review: maintaining the momentum, December 2017, p46–8
227 Department for Work and Pensions (PSL0047)
228 NOW:Pensions (PSL0028); NOW:Pensions, The Gender Pensions Gap Report 2022, June 2022

> that automatic enrolment can work for everybody. That is the basis upon which we and others have been calling for the abolition of that £10,000 cap.[229]

Others called for it to be reduced,[230] for example, to the National Insurance lower earnings limit, or frozen at its current rate.[231]

99. Former Pensions Minister Sir Steve Webb thought the £10,000 threshold was about right, on grounds that people on £8,000 a year should not be asked to save for retirement when they were likely to get an income of £10,000 a year from the State Pension.[232] However, former Pensions Commission member Baroness Drake argued that the level at which the threshold was set excluded too many low-earning women who could benefit from building up assets which would give them resilience in old age.[233] Former Pensions Minister, Baroness Altmann, agreed.[234]

100. Will Sandbrook of NEST, argued that a better evidence base was needed on "the population of people who do not have a single income above £10,000 [...] and how they split between those who may very well benefit from saving for their retirement and those who may not". This would inform any decision on whether bringing these people into auto-enrolment was the right thing to do, or whether more should be done to encourage them to opt in.[235] Joanne Gibson, Acting Director of Private Pensions and Arm's-Length Bodies at the Department for Work and Pensions, told us that they were doing research of increasing pension contributions on low earners, with the results coming out early in 2023.[236]

101. A related issue is that of people with multiple jobs, who earn more than £10,000 overall but not in any one job. The 2017 review estimated that there were 975,000 multiple jobholders in this position but was not able to find a straightforward or proportionate solution that would enable them to be included in auto-enrolment.[237] Philip Brown, Director of Policy at B&CE, provider of The People's Pension, said that addressing this issue, together with a reduction in the earnings trigger would have "huge implications" for the gender and ethnicity pension gaps. It was the "biggest single contributor to helping with those two challenges."[238] The Pension and Lifetime Savings Association called on the Government to look at the issue again in the light of technological advances since 2017.[239] However, the then Economic Secretary to the Treasury, John Glen, told us there were barriers to doing so:

> HMRC systems would not currently be capable of achieving this and the practical implications of doing so are not insignificant. In addition, it would present an ethical challenge by, for example, requiring HMRC to disclose information about an individual's total employment income to each employer, challenging the important principle of taxpayer confidentiality.[240]

229 Q91
230 Prospect (PSL0025); Scottish Widows (PSL0023)
231 Scottish Widows (PSL0023)
232 Q132
233 Q132
234 Q132
235 Q87–8 and Q94
236 Q283
237 DWP, Automatic enrolment review: Maintaining the Momentum, December 2017, p43–6
238 Q92
239 PLSA (PSL0040)
240 Letter from Economic Secretary to Chair, 17 June 2002

102. **We heard that the level at which the auto-enrolment earnings trigger is set (£10,000) currently excludes too many people, with the result that they miss out on employer contributions and tax relief. We heard calls for it to be reduced or removed. We also heard that any such decision needed to be informed by a better understanding of the circumstances of low earners and the likely impact of any change on them. DWP plans to publish research in early 2023 which may help inform this.** ***Following publication of this research, DWP should write to us setting out a timetable to review the level at which the earnings trigger is set and, if it is unable to do so, explain what action it intends to take to address the exclusion of low earners from auto-enrolment. We also recommend that DWP and HM Treasury continue to explore ways to bring multiple jobholders within the scope or auto-enrolment, for example, by amending the PAYE coding notice system to add an instruction to auto-enrol.***

Tax relief for non-taxpayers

103. Another measure that we heard needs to be addressed is the fact that some low earners do not receive pension tax relief because of the sort of pension arrangement they have been auto-enrolled into. There are two ways to administer tax relief on pension contributions. One is the "net pay" arrangement, whereby pension contributions are made before tax has been paid, so people automatically receive tax relief at their correct marginal rate. The other is "relief at source," where contributions are deemed to have had tax at the basic rate deducted and the pension scheme then claims the relief from HMRC. Non-taxpayers benefit from tax relief only if their employer operates a 'relief at source' arrangement.[241] This means that people who do not earn enough to pay income tax (£12,570 in 2022/23) and who are in 'net pay' schemes do not receive tax relief on their pension contributions. This affects an estimated 1.32 million people, 75% of them women.[242]

104. This is a long-standing concern, discussed in the 2017 auto-enrolment review, for example.[243] In October 2021, HM Treasury said it had identified a solution to "broadly equalise outcomes for all lower earning pension savers." Individuals making pension contributions to net pay schemes from 2024–25 would be eligible to claim a top-up, worth an average £53 in 2025–26. HMRC would calculate the amount of top-up an individual was entitled to in one tax year and notify those eligible, inviting them to provide the necessary details to the agency to receive payments the following year. For those digitally excluded, HMRC would "provide additional support services to enable them to receive payment."[244] The reason for the timescale was "the complex nature of the IT systems changes required, as well as other ongoing HMRC delivery programmes" and the need for primary legislation.[245]

105. HM Treasury published draft legislation on 20 July 2022.[246] An accompanying policy paper explained that the Government believed it was "right to rectify this anomaly."[247] The then Economic Secretary to the Treasury, John Glen MP, told us that "as a result of this change, low earning pension savers should receive similar outcomes regardless of how

241 Gov.UK, tax on your private pension
242 HM Treasury, Low earners anomaly: pensions relief relating to net pay arrangements, 20 July 2022
243 Prospect, Gender pay gap report 2021, September 2021; DWP, Automatic enrolment review: maintaining the momentum, December 2017
244 HM Treasury, Pension tax relief administration: call for evidence response, October 2021, Executive Summary
245 Ibid, para 1.8 and 2.36
246 HM Treasury, Low earners anomaly: pensions relief relating to net pay arrangements, 20 July 2022
247 HM Treasury, Low earners anomaly: pensions relief relating to net pay arrangements, 20 July 2022

their pension scheme is being administered for tax purposes."[248]

106. NOW:Pensions, while welcoming the Government's action, had some concerns about the delay to implementation and take-up. It said the way in which HMRC communicated with individuals would be as important as the legislation itself. Its understanding was that eligible low earners would have to apply to claim the rebate, but that having applied once they would be automatically assessed in subsequent years. It proposed that, once HMRC had the system up and running, reconciliations could be run for earlier tax years and payments backdated to at least 2021/22. The greater amounts then on offer could boost take up of initial claims.[249] This would have the effect of increasing the cost of the policy.

107. Royal London said that HMRC's proposed solution, while welcome in principle, meant in practice impacted customers would be unable to claim top ups until the 2025/26 tax year. It said that this "protracted implementation timetable seems sub-optimal and will disproportionately impact women."[250] The former Pensions Minister, Guy Opperman MP, indicated he was keen to see progress in resolving the issue.[251]

108. **We welcome the Government's recognition of the importance of addressing the fact that some low earners (disproportionately women) miss out on tax relief because their pension scheme uses the 'net pay' arrangement for tax relief. Given this is a long-standing concern, it is disappointing that the first payments will not be made until 2025/26 and that those eligible will have to take action to receive payment.** ***We recommend HM Treasury consider whether payments can be brought forward and, if not, whether arrangements can be put in place for backdating payments, at least to 2021/22, when the plans to equalise outcomes for low earning pension savers were first announced. We urge the Government to set out its strategy for maximising take-up and explain how it will work with stakeholder organisations on this.***

Pension sharing on divorce

109. Pensions can be divided in different ways on divorce or dissolution of a civil partnership. One option is a pension sharing order, where an individual gets a percentage share of their ex-spouse or civil partner's pension(s). This is either transferred into a pension in their name or they can join their ex-partner's pension scheme.[252]

110. However, divorced women's pensions were much lower than divorced men's.[253] Research published in 2021 revealed, for example, that divorced women not cohabiting in their sixties had less than 30% of the pension of equivalent men.[254] . The incidence of pension sharing on divorce appears to be very low: a study by the Pensions Advisory Group, looking at data for 2012/14 suggested that financial orders were only made in around 40% of divorces and pension sharing orders only in around 5% of divorces.[255]

248 Letter from Economic Secretary to the Treasury to Chair, 29 June 2020
249 NOW:Pensions (PSL0028)
250 Royal London (PSL0031)
251 Q323
252 For background, see Commons Library Briefing Paper CBP 430 Pension sharing on divorce
253 Professor Debora Price (PSL0065)
254 Ibid
255 Ibid

111. We heard calls from many witnesses from the pensions industry for steps to increase the incidence of pension sharing orders. Options suggested to us including finding ways to make consideration of pension sharing the default or making it compulsory.[256]

112. However, Professor Debora Price told us that the first step must be to improve the data, in order to be able to understand what is happening in family courts and why so few divorces include a pension sharing order.[257] She said that when pension sharing was first introduced in 2001, the Government committed to reporting on the use of pension sharing orders to monitor the effectiveness of the policy. However, an attempt to add a question to the Family Resources Survey was short-lived due to measurement error being recorded. Until November 2020, monitoring was principally achieved through the Ministry of Justice's (MoJ) Quarterly Family Court Statistics but these figures were also withdrawn as not being of sufficient quality for official statistics. Professor Price argued that it was important that, with the pending move to an online system for court statistics, the opportunity was taken to deliver real improvements in the quality of data.[258] The former Pensions Minister told us that the MoJ produces data on financial remedy disposals including pension sharing orders, although the data is not split by gender.[259] However, Professor Price's evidence suggests there are problems with the way the figures on financial remedy disposals are collected which make them unreliable.[260]

113. **Divorced women's pensions are much lower than those of men. There appear to be no reliable, regularly reported statistics on the number of pension sharing orders made on divorce. Research indicates that it may be as low as 5% of divorces.** ***As a first step towards a strategy to improve take-up of pension sharing on divorce, we recommend that DWP work with the Ministry of Justice and experts in the area to produce regular and reliable statistics on pension sharing orders. It should report to us on its plans for this by March 2023.***

High Income Child Benefit Charge

114. People accumulate State Pension entitlement through 'qualifying years' of National Insurance contributions or credits. Carers' credits are available to help protect entitlement. Eligibility criteria include being registered for Child Benefit for a child under 12, even if you do not receive it.[261] The Coalition Government introduced a High Income Child Benefit Charge, which provided for Child Benefit to be clawed back through the tax system from families where the highest earner has an income in excess of £50,000 and withdrawn completely at incomes of £60,000 or more.[262] Families with one partner earning £60,000 or more can opt not to claim Child Benefit or to claim but not receive it. The advantage of the latter is that they are then covered by NI credits.[263] HMRC figures show that 456,085 people (84% of them women) opted out of receiving Child Benefit between the time the High Income Tax Charge was introduced in 2013 and 2018.[264] The Government argues that this does not necessarily have an impact on State Pension entitlement: people can

256 PSL0023 [Scottish Widows]; PSL0036 [ABI]; PSL0037 [Hymans Robertson]; PSL0038 [Legal and General]
257 Professor Debora Price (PSL0065)
258 Ibid, para 14
259 Letter from Pensions Minister to Chair, 26 August 2022
260 Professor Debora Price (PSL0065, para 8 and 9)
261 Gov.UK, National Insurance credits; Pensions Act 2014, s2
262 Finance Act 2012, s8 and Sch 1
263 HMRC, High Income Child Benefit Charge, 16 December 2021
264 UIN155755 25 April 2022

build entitlement in other ways, for example, through paid work and, in any case, only 35 qualifying years are needed for a full new State Pension, out of a potential 50 years of working life.[265]

115. However, former Pensions Minister Sir Steve Webb was concerned at the extent of the reduction in Child Benefit claims and its potential impact on the gender pension gap. He argued that asking people to claim a benefit they would not receive in order to be eligible for credits was unlikely to be an effective approach. He suggested two possible solutions: either to allow credits to be backdated to cover the period Child Benefit was not claimed for; or, to link eligibility for credits to registration of the birth.[266]

116. The former Minister Guy Opperman MP told us that Child benefit policy was a matter for HMRC, which had taken steps to encourage new parents to claim Child Benefit regardless of household income. The application form had been redesigned to help people understand the importance of doing so.[267]

117. **Almost half a million people have stopped claiming Child Benefit since 2013 to avoid the High Income Child Benefit charge.** ***We recommend that DWP explain what arrangements it intends to put in place to ensure this does not have a detrimental impact on their State Pension entitlement.***

265 Letter from Pensions Minister to Chair, 26 August 2022
266 Q133
267 Letter from Pensions Minister to Chair, 26 August 2022

8 Guidance

118. Individuals looking to make decisions about their pensions can seek both advice and guidance. Advice is a personalised recommendation and can only be provided by Financial Conduct Authority (FCA) regulated firms on the Financial Services Register. Savers must pay for it and a minority of individuals (8%) take it up.[268] Guidance is a broader term including general information and signposting about pensions. It does not include a recommendation but can be offered by any organisation, including pension schemes and employers. Free, impartial guidance is available to everyone through the Money and Pensions Service (MaPS), which provides two pensions guidance services:

- **MoneyHelper Pensions** (previously known as The Pensions Advisory Service) provides guidance on all areas of UK pensions to the public, regardless of age. It includes specialist pensions and divorce appointments and pension rebuild appointments for people who have lost their pension savings and need to rethink their options to rebuild or maximise savings.

- **Pension Wise** provides structured guidance specifically about accessing Defined Contribution savings through the options available under pension freedoms.[269]

MaPS is working to increase the flexibility of these services, so it can provide individuals with appropriate guidance without having to refer people between services.[270]

Take up of MoneyHelper Pensions guidance

119. MaPS Chief Executive Officer, Caroline Siarkiewicz, told us that the biggest challenge was "working out how we help people understand the environment, landscape, options and choices that they have—bearing in mind the huge numbers of people who do not know where to go to do that."[271] She told us that the guidance provided by MoneyHelper Pensions could answer a broad range of questions and that she would be in favour of anything they could do to encourage more people to get the guidance that will help them.[272] We heard that it is also an important resource for small businesses, who do not generally have dedicated HR departments.[273] However, we note that some of the mechanisms put in place to encourage take-up of Pension Wise do not apply to MoneyHelper Pensions guidance. Unlike Pension Wise, there is no requirement on providers to signpost to MoneyHelper Pensions guidance and no dedicated service budget for media and marketing.[274]

120. Martin Willis, chair of the DC Committee at the Society of Pension Professionals, for example, thought there was potential to employers to work with scheme providers to drive up engagement by identifying the approach most appropriate to their workforce:

> A lot of the saving is through the workplace, and I think there is an onus on employers not to necessarily come up with all these tools, but to work with

268 Aegon (PSL0012)
269 Department for Work and Pensions (PSL0047)
270 Ibid
271 Q150
272 Q173
273 Federation of Small Businesses (PSL0054)
274 Money and Pensions Service, Annual Report and Accounts for the year ended 21 March 2021, HC857, December 2021, p76

> all these schemes. The bars have been raised with these schemes because of things like the master trust authorisation framework and governance for trust-based schemes to work out what is right for their workforce. If you are all sat at desks with PCs, use online modellers. If you are in vehicles, then perhaps there could be a QR code on the windscreen that can be scanned in with a mobile phone. These things exist, so I think there is an onus on employers to work with scheme providers in order to come up with the right thing.[275]

121. In our report on accessing pension savings, we recommended that the regulators and MaPS "produce a plan to increase the number of schemes and employers using the tools they provide."[276] In response, the Government said that the Pensions Regulator (TPR) and the FCA promoted the tools produced by Money Helper in their guidance. MaPS said it worked with organisations such as employers encouraging them (under licence) to use its digital tools on their own intranets and website and was involved in awareness campaigns run by the pensions industry.[277] However, in a speech in September 2021, chair of MaPS, Hector Sants, said he thought there was a "huge opportunity" for employers to do more:

> There is a huge opportunity for employers to engage their workforce on pensions as part of a wider financial wellbeing offer. More work is needed to make the business case for this, especially around pensions where the implications of non-action may not be obvious. However, there are already many examples of companies offering integrated financial wellbeing support to their employees. Widespread adoption of such practices will be critical to achieving our national goal.[278]

122. It is not clear what level of take-up of MoneyHelper Pensions guidance MaPS or DWP think is optimum. MaPS told us it "has capacity" to deliver 205,000 Pensions Guidance sessions (alongside 250,000 Pension Wise appointments). It told us it also supports people digitally and is aiming for 700,000 completions of pension guidance digital tools in 2022/23, including budget planning and pension forecasting. The wording in the memorandum from MaPS—which is about its "capacity" to deliver a particular number of guidance sessions— suggests that this is linked to its available budget and resources.[279] It is not clear how this capacity links to MaPS' wider goals, which include having "5 million more people understanding enough to plan for, and in, later life by 2030."[280] In his Departmental review of MaPS published in November 2021, Tom McPhail recommended that MaPS should create and publish measurable stepping stones, with short and medium term goals against which progress towards its statutory objectives could be measured. He said these stepping stones should "also reflect how MaPS intends the long-term Financial Wellbeing Strategy to be realised."[281]

275 Q80–1
276 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting pension savings: Five years on from the pension freedoms: Accessing pension savings, HC 237, para 100
277 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting pension savers - five years on from the Pension Freedoms: Accessing Pension Savings, para 100; Money and Pensions Service, Response to the Committee's report on Accessing Pension Savings, 29 June 2022
278 Hector Sants speech, The Income in Retirement Landscape, 28 September 2021
279 Money and Pensions Service (PSL0063); Money and Pensions Service, MoneyHelper pension take up dashboard
280 Money and Pensions Service, UK Strategy for Financial Well-being, 2020
281 Departmental Review of the Money and Pensions Service (MaPS), 1 November 2021

123. **MaPS Chief Executive, Caroline Siarkiewicz, told us that the biggest challenge was working out how to help people understand their options and choices, "bearing in mind the huge numbers of people who do not know where to go for that." MoneyHelper Pensions guidance is an important service, able to help people engage with their pensions and support them with decision-making at important points such as divorce. MaPS has capacity to deliver 205,000 such pensions guidance sessions this year. It is not clear whether this is optimum or whether more people could benefit from the service if there was a concerted effort to increase take-up.** ***We recommend that DWP and MaPS consider how the mechanisms available to increase take-up of Pension Wise—signposting requirements and a dedicated media and marketing budget—could be applied to MoneyHelper Pensions. MaPS should explain the role it expects its pensions guidance services to play in meeting its goal to have 5 million more people understanding enough to plan for and in later life by 2030. It should also explain how it plans to work with employers to ensure they play their part in meeting this goal.***

Advice/guidance boundary

124. As discussed in our Accessing Pension Savings report, the line between advice and guidance continues to be an issue of debate.[282] There is demand from consumers for guidance related to their personal circumstances, without necessarily recommending a particular product, but a reluctance from the pensions industry and employer to provide it because of concerns that they would be considered to have stepped over the boundary into advice. To clarify the position and make it easier for more support to be provided to savers, we proposed that the FCA should use new definitions of enhanced guidance and limited advice and provide examples to encourage their use by pension schemes and employers.[283] In response, the FCA said the definitions we had proposed were similar to ones it had developed previously and that it had published perimeter guidance (including detailed examples) to help firms understand what they could and couldn't do. However, it acknowledged that this had had limited success."[284]

125. Executive Director of Markets, Sarah Pritchard, told us that the FCA thought more could be done within existing boundaries, without any change to legal definitions, (which would be a matter for Government). She reported that the FCA was working with the ABI to bring together some practical examples of where concerns about the advice/guidance boundary were causing an issue.[285] TPR had also set up panels of savers and employers to help it better understand what is needed.[286] The Financial Services Consumer Panel said it believed that firms could "go considerably further than they do, within the current regulatory framework, but they fear crossing the line as they perceive the impacts to be punitive."[287]

126. **We heard that concerns about stepping over the boundary from guidance into advice continue to constrain the support that pension schemes and employers can**

282 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting people's savings - five years on from the pension freedoms. Accessing pension savings, HC 237

283 Ibid

284 Work and Pensions Committee, Eighth Special Report of Session 2021–22, Protecting pension savings - five years on from the pension freedoms. Accessing pension savings. Response from Government and Financial Conduct Authority, HC 1270

285 Q162

286 Q166

287 Financial Services Consumer Panel (PSL0064)

provide to savers. The regulators are working with pension schemes and providers to better understand these concerns and to gather practical examples of where this is causing a problem. ***We recommend DWP and the FCA report to us on progress in clarifying the boundary between advice and guidance by March 2023.***

Privacy and electronic communication regulations

127. We were told that another issue which made it difficult for some schemes to communicate information they thought would be helpful to scheme members. The Privacy in Electronic Communications Regulations 2003 prevent the sending of electronic messages (such as emails) that constitute 'direct marketing' without consent, in order to protect privacy. For commercial organisations, the regulations allow a 'soft opt in', which means they can contact individuals who have previously been in touch during a sale or transaction and have not refused or opted out of receiving marketing communications. However, this does not currently extend to non-commercial organisations, such as a trustee board.[288] The Universities Superannuation Scheme (USS) told us that concerns about breaching the regulations materially impacted its ability to communicate with pension scheme members who had been auto-enrolled and, therefore, its ability to comply with guidance from the Pensions Regulator (TPR) on good communications with scheme members.[289] The USS wanted the regulations amended to apply the 'soft-opt in' to non-commercial organisations as had been proposed in a Department of Culture Media and Sport (DCMS) consultation and cover specifically information gathered via auto-enrolment.[290] Chief Executive of TPR, Charles Counsell, explained that the issue was that when savers were auto-enrolled, they did not opt-in to marketing communications: trustees were therefore concerned about the risk of straying into marketing, when communicating with members. He was discussing with the Information Commissioner's Office (ICO) whether these concerns could be addressed through guidance.[291] In its response to the consultation in June 2022, DCMS said it intended to extend the soft opt-in to non-commercial organisations.[292] The USS welcomed this but argued that changes to regulations and guidance were still needed to reflect the specific position of pension schemes used for auto-enrolment and enable them to communicate with scheme members in line with TPR's Code of Practice.[293]

128. **It is clearly important that pension schemes can provide pension scheme members who have been auto-enrolled with information and tools to help them engage with their pensions.** ***We recommend that TPR report back to us by March 2023 on the progress that has been made in resolving concerns that the Privacy and Electronic Communications Regulations prevent schemes from doing so.***

Other initiatives to increase engagement

129. The FCA told us that the success of auto-enrolment in harnessing the power of inertia also creates challenges for policy makers. Firstly, how to protect consumers who were less

288 Departure for Culture Media and Sport, Data: a new direction, September 2021, para 208
289 Universities Superannuation Scheme Ltd (PSL0071); The Pensions Regulator, Code of Practice 13: Governance and administration of occupational trust-based schemes providing money purchase benefits, 21 September 2016
290 Letter from Chair to Julia Lopez, Minister of State for Media, Data and Digital Infrastructure, 18 May 2022
291 Q169; see also Letter to Chair from Julia Lopez, Minister of State for Media, Data and Digital Infrastructure, 31 May 2022
292 Department for Culture Media and Sport, Data: a new direction. Government response to consultation, 23 June 2022
293 Universities Superannuation Scheme Ltd (PSL0071)

engaged from the risk of poor retirement outcomes (for example, from poor products); and secondly how to find ways to increase engagement and provide support, at the right times in the consumer journey.[294] With these challenges in mind, it was working with TPR to:

- Set and enforce clear standards for delivering value for money, looking at issues like investment performance, governance and communications, costs and charges; and
- Identify what more can be done to help consumers engage and make good decisions on their pensions journey. The points at which they need to do so include deciding whether to participate in pension saving, how much to save, whether to consolidate small pots and how and when to draw their pension savings.[295]

130. Initiatives are being developed to support engagement in future, include the PLSA's retirement living standards, simpler benefit statements, awareness campaigns, the Mid-Life MOT and pensions dashboards.

131. The PLSA's Retirement Living Standards introduced two years ago provide a "concrete basis for thinking about the future, helping savers to think about what they want to be able to do in retirement, and how much they would need to spend to be able to do this."[296] The PLSA's Director of Policy and Advocacy, Nigel Peaple, told us it did not yet have substantial evidence on the impact of retirement living standards. However, it had been agreeably surprised at how the standards had "captured people's imagination, and how much the wider pensions industry and savers have adopted and started using them."[297] Because so much depends on individual circumstances, the PLSA left it to individual schemes and providers to decide how to use them as an engagement tool.[298] The Institute and Faculty of Actuaries has developed savings goals, linked to each of the standards, to act as a rule of thumb.[299]

132. In our Accessing Pension Savings report, we said **pension dashboards** (which enable people to view their pension income securely) had the potential to be the most influential policy in helping people take good decisions when they access their pension pots. We recommended that the MaPS should develop a guidance service which would support savers by using the data available through their pension dashboards.[300] We were told that MaPS is developing a retirement planning hub, into which it will incorporate its own pensions dashboard, to support personalised guidance to individuals.[301] Caroline Siarkiewicz, told us that:

> I think it is really important that for the dashboards to be successful they need to engage. It is one thing to know where your pension money is but

294 Financial Conduct Authority (PSL0046)
295 Financial Conduct Authority (PSL0046); Q150
296 Matt Padley (PSL0019)
297 B&CE (PSL0041)
298 Q25
299 Institute and Faculty of Actuaries (PSL0035)
300 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting pension savers: Five years on from the Pension Freedoms. Accessing Pension Saving, HC 273, chapter 4
301 Work and Pensions Committee, Eighth Special Report of Session 2021–22, Protecting pension savers: Five years on from the Pension Freedoms. Accessing Pension Saving. Government and Financial Conduct Authority Responses to the Committee's Fifth Report, HC 1270

> actually it is really important to have services around those. Certainly, as MaPS, we will be looking to use that as an engagement tool to help people understand what else they might do.[302]

For commercial dashboards, Chris Curry, Director of the Pensions Dashboard Programme, also told us that, while the immediate priority was to get them up and running successfully, consideration would be given to including retirement planning tools, such as the PLSA's retirement living standards into pension dashboards in the longer term.[303] We also heard that it will be important for dashboards to signpost to advice and guidance services but there are questions to resolve on how this should be done.[304] We welcome confirmation from the FCA that this is on their radar and the former Pensions Minister's statement that he thought signposting to pension saving should be part of the dashboard.[305]

133. The Financial Services Consumer Panel told us that 'education, either in advance or just in time'—in the form of information, education and tools to support decision-making from pension schemes and employers—was key to helping pension savers make decisions that are best for them, based on their circumstances.[306] In advance of the introduction of pensions dashboards, the Government has introduced regulations to make **annual benefit statements** for auto-enrolment schemes simpler and easier to understand. It hopes that this will help ensure people have information about their pension savings that they can understand and that will help support the advice and guidance process.[307] We welcomed this initiative in our Access Pension Savings report, although we said the Government should rethink its proposal to require all schemes to send out them out during a short pension statement season each year if the benefits of this could not be robustly demonstrated.[308] In response, the Government said it recognised the challenge of delivering a statement season. It welcomed the industry-led campaign to support engagement and would continue to look at ways to prompt people to engage with their pensions, including what role annual benefit statements could play.[309]The Pension and Lifetime Savings Association and Association of British Insurers launched a campaign in September 2022, with the message to "pay your pension some attention."[310]

134. The **Mid-Life MoT** is free online support to encourage people in their 40s, 50s and 60s to do more active planning in the key areas of work, wellbeing and money. It signposts to wider financial guidance such as Money. Helper. In our Accessing Pension Savings report we welcomed the principle and recommended that DWP and MaPS undertake research to develop the most effective format and delivery route and maximise take up of the midlife MOT.[311] In response, the Department told us it had run ten 'digital discovery' tests with Local Enterprise Partnerships to test and evaluate localised approaches to delivery. It had

302 Q168
303 Q28
304 ABI
305 Q167 [Sarah Pritchard] and Q298 {Guy Opperman]
306 Financial Services Consumer Panel (PSL0064)
307 Department for Work and Pensions (PSL047)
308 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting people's pensions: five years on from the pension freedoms. Accessing Pension Savings, HC 237, para 115 and 119
309 Work and Pensions Committee, Eighth Special Report of Session 2021–22, Protecting people's pensions: five years on from the pension freedoms, Accessing Pension Savings. Government and FCA Responses to the Committee's Fifth Report, HC 1270
310 The challenge of winning pension attention, PLSA, 22 August 2022; Pay Your Pension Some Attention, ABI, 8 September 2022
311 Work and Pensions Committee, Fifth Report of Session 2021–22, Protecting pension savers: five years on from the Pension Freedoms. Accessing Pension Savings, HC 237, para 124

also established a Mid-life MOT Board, chaired by the Minister for Pensions and attended by the Minister for Employment, to co-ordinate the approach to development, delivery and evaluation of a Mid-life MOT across the public and private sectors.[312] The former Minister for Pensions told us he would like to say to the Chancellor:"you gave us money to do a proper pilot and these are the interventions that work. Now roll this out nationwide." He said it would be a "big intervention", effectively asking everybody between the ages of 45 and 50 to address their health, wealth and well-being.[313] Laurie Edmans, a Financial Inclusion Commissioner and member of the Mid-life MOT Board, told us the Mid-life MOT was "exactly the right approach" but was concerned that it would not be given the "weight" needed to make a difference.[314] The former Minister for Pensions told us that in an ideal world he would like to start interventions earlier, for example, when people were in their 20s.[315] The Financial Inclusion Commission stressed the importance of adults and children receiving the financial education they need, starting in primary school and carrying on throughout life and into retirement.[316]

Initiatives to improve outcomes for all savers

135. The Pensions Regulator told us of the need to "ensure the system works well for all [savers] regardless of whether they engage or not." A number of initiatives are underway to support this, including the development by the regulators of a Value for Money framework, the aim of which is to enable employers to "check the scheme they have chosen for their workers is the right one, including an assessment of investment strategy, would have a positive impact on outcomes."[317] Another way to improve value for money is to find a way to enable small pots to be consolidated as people move jobs. The ABI and PLSA have been working to develop an effective solution to this.[318] A report published by a cross industry co-ordination group in June 2022 made recommendations to take forward and make progress on the changes needed. The view of industry representatives was that legislation would be needed.[319]

136. DWP told us it was considering how the use of **Collective Defined Contribution (CDC)** schemes might be extended beyond Royal Mail in future It said these schemes had "potential to deliver better average outcomes for CDC savers compared with individual DC."[320] Terry Pullinger, Deputy General Secretary of the Communication Workers' Union (CWU), told us that the big advantage of CDC, compared to DB, was their flexibility, that could be used to allow the scheme to remain open. He said that, based on the results of modelling of Royal Mail's CDC scheme in different economic circumstances, there was "every reason to be optimistic."[321] Jack Jones of the TUC said that "one of the beauties of CDC is that it does not require any member engagement to deliver a decent outcome for people."[322]

312 Work and Pensions Committee, Eighth Special Report of Session 2021–22, Protecting pension savers: Five years on from the Pension Freedoms. Accessing Pension Saving. Government and Financial Conduct Authority Responses to the Committee's Fifth Report, HC 1270
313 Q274
314 Q81
315 Q274
316 Financial Inclusion Commission (PSL0032)
317 The Pensions Regulator (PSL0043)
318 Ibid
319 ABI and PLSA, Small Pots Cross Industry Co-ordination Group. Spring 2022 Report, June 2022
320 Department for Work and Pensions (PSL0047)
321 Q197
322 Q211

137. **We welcome the work being done to improve engagement and support savers in making decisions while they save, for example, through the development of pensions dashboards and the Mid-Life MoT and simpler annual benefit statements.** ***DWP, MaPS and the FCA should continue to explore ways that savers can be supported to take control of their finances through information, education and support from pension schemes and employers.*** **We also welcome the fact that, alongside this, initiatives are being progressed with the aim of improving outcomes for savers even if they do not engage, such as the development of a framework to help employers judge whether the scheme they have chosen for auto-enrolment represents good value for money for savers. As we said in our report on Accessing Pension Savings, there is demand for the further development of Collective Defined Contribution (CDC) schemes in future and it is right the Government continues to support this. We will return to look at these initiatives as they develop.**

9 How to move forward

138. To avert a future crisis in retirement incomes, Government to be clear about what outcomes the pensions system should be trying to achieve. Some witnesses told us that a new Pensions Commission should be set up for this purpose. However, we also heard what is needed is action from politicians rather than a new Commission to come up with policy proposals. Former Pensions Minister, Sir Steve Webb, thought a second commission would be likely to come up with similar recommendations to the 2017 review, which in his view were "sensible, moderate and incremental" but "not enough" and had still not been implemented. In his view, the cause of the 'log jam' was HM Treasury concerns about increasing the cost of pension tax relief.[323] Former member of the Pensions Commission, Baroness Drake agreed that getting buy-in from HM Treasury was essential and that tax relief had "consistently been a problem." She did not think a commission needed to be charged with coming up with policies.[324] The former Pensions Minister, Guy Opperman MP, argued that the current situation was one of "evolution rather than revolution", which required a department that understood the issues and had a process to address them.[325] Importantly, he said that DWP needed to gain support across Government, taking account of other fiscal pressures.[326]

139. We heard that there would be a need to build a consensus and create the momentum needed to move to the next stage, as had been done so successfully by the Pensions Commission. As discussed in chapter 2 above, we heard that this was particularly important in relation to adequacy: having a broad social consensus about the nature of the problem and what needs to be done to address it would be essential to deciding on appropriate policy proposals and gaining support for them. Witnesses called for a "forward-looking plan," and a long-term strategy, driven by consensus and with cross-party support.[327]

140. Baroness Drake argued for a standing commission or advisory body that "looks at the data and the trends and what that means for trade-offs, and that reports regularly to Parliament, so that there is a high level of understanding as to where public policy should be pitched on this." Smart Pension called for an "office of pension responsibility" to "ensure the Government set out and maintained a long-term strategy, and importantly would explain and assess the inherent trade-offs that are a consequence of any government policy or regulatory decision."[328] The need for better data to support decisions has come up in a number of areas in this report, including what a good outcome in retirement looks like for people relative to their working-age situation, whether the £10,000 "earnings trigger" (the level of earnings at which people must be auto-enrolled) should be changed or abolished, and what solution will be right for self-employed people.[329] The Minister agreed that "the quality of data we have, particularly in the workplace pension space, needs to get better."[330]

141. **We heard that there is a consensus that auto-enrolment has been successful in increasing participation in workplace pension saving but also that it is time to address**

323 Q127
324 Q127 and Q128
325 Q282
326 Q266
327 Q87 [Philip Brown]; Q3 [Rob Yuille]
328 Smart Pension (PSL0033); See also Q42 [Sophia Dimitriadis]
329 Q88
330 Q319

the challenges which mean many people are unaware they are not saving enough for an adequate income in retirement. There is a need to forge a consensus on the future direction, including employers, trade unions, the pensions industry and the wider public. This will require a cross-government commitment to develop a plan and build this consensus. In some areas—such as how to increase self-employed pension saving, ensure any future increase in contributions is well-targeted, and increase pension sharing on divorce—a better evidence base is needed to understand the issues. ***We recommend that the Government set up a new office tasked with: building and maintaining an evidence base; explaining the trade-offs involved in different policies; reporting regularly to Parliament on progress in meeting objectives relating to retirement adequacy and the gender pension gap.***

Conclusions and recommendations

Introduction

1. The Government has not acted on our recommendation to set a target of at least 60% for the combined use of Pension Wise and paid for advice when accessing pension pots for the first time. It also rejected our recommendation for a trial of automatic Pension Wise appointments, saying it would consider whether further interventions were needed, based on its assessment of the 'stronger nudge.' We remain concerned that the stronger nudge will not be enough to make take-up of Pension Wise 'the norm' and that neither DWP or MaPS have set metrics by which to judge its success, whether in terms of take-up of appointments or the effectiveness of the intervention. We are also concerned that a review in 2024, as suggested by the former Minister, will be too late given the time that it would take to trial and then implement any alternative solution. *We recommend that by March 2023, DWP, the FCA and MaPS publish the metrics they intend to use for evaluating the stronger nudge. These should cover issues including take-up, the timing and the extent of behaviour change resulting from it. The evaluation should be completed no later than the end of July 2023. In addition, DWP should commission research to look at other initiatives trialled in the meantime, such as automatic appointments.* (Paragraph 13)

Are people saving enough?

2. Many newly auto-enrolled people make minimum contributions, not realising that this will not be enough to give them an adequate living standard in retirement. The Pensions Commission designed auto-enrolment to get median earners part of the way to its definition of retirement adequacy, with the expectation that they would make additional voluntary savings on top. However, largely they have not done so. Recent analysis by the Pensions Policy Institute for B&CE showed that only 39% of households and 37% of individuals are on track to hit the target replacement rates used by the Pensions Commission to benchmark adequacy. A group at particular risk, is people in their forties and older who do not have access to a defined benefit pension (a pension that pays benefits based on salary and length of service) and have had limited time to build up a pension through auto-enrolment. (Paragraph 26)

3. Although there are two commonly used measures of adequacy, there is currently no consensus in support of a single definition or what target the system should aim to achieve. We heard that building a new consensus on this—involving employers, trade unions, politicians, the wider public and the pensions industry—would be essential to gaining support for any reforms to address the problem of under-saving. *We recommend that, by March 2023, the Government should set out its plans to build a new consensus on what an adequate income in retirement is and what the pensions system should be designed to achieve.* (Paragraph 27)

The 2017 review

4. We support the former Pensions Minister's continued commitment to introducing the recommendations of the 2017 auto-enrolment review by the mid-2020s. It is

disappointing that five years on, we have seen no implementation plan or impact assessment. There is almost universal support for these recommendations, which would improve retirement outcomes for many part-time workers, disproportionately women, and for workers in the gig economy. The former Pensions Minister told us he had a two or three clause bill ready to make the necessary changes to legislation. *We recommend the Government introduce the necessary legislation no later than the beginning of the next session of Parliament. It must also publish a timetable for consultation on implementation, taking account of cost pressures on employers and workers.* (Paragraph 35)

The minimum contribution rates

5. There is a consensus that many people need to increase their pension contributions if they are to have an adequate income in retirement. Many told us that minimum contribution rates needed to increase above 8% if this was to happen. We welcome the former Pensions Minister's aspiration to work towards a 12% minimum contribution rate, as in Australia. There are good arguments for starting with an increase in employer contributions to 5%, level with employees. And any move to increase contributions should aim to increase pension saving for the right people at the right time. We welcome the fact that DWP is doing research to understand the impact on low earners. (Paragraph 49)

6. The middle of a cost of living crisis is not the time to ask people to pay more into their pension. However, if they are to do so in future, work to prepare the ground needs to start now to build consensus on the need for change among employers and the wider public. *As a first step, the Government should say whether it considers an increase in minimum contributions possible in the foreseeable future. If not, it should explain how it intends to address the challenge of many people being on course for retirement incomes they will not think adequate.* (Paragraph 50)

7. In addition to any increase in the statutory minimum, we have been persuaded that there is scope to expand the use of targeted ways to improve outcomes or increase contributions. *We recommend the Government commit to a trial of auto-escalation schemes, such as Save More Tomorrow (where people commit in advance to paying part of future salary increases into their pension), with a view to understanding how the use of such schemes might be extended to a wider range of savers and employers.* (Paragraph 54)

8. People in generation X and older without access Defined Benefit pension saving will have had limited time to build up pension savings through auto-enrolment and are therefore at risk of not hitting their retirement adequacy targets. *We recommend the Government should consult on a plan to address this challenge and report back to us by March 2023.* According to the Office for National Statistics, almost a third of working age people do not expect to have any pension provision beyond the State Pension when they retire. We recommend the Government should consult on a plan to address this challenge and report back to us by March 2023. According to the Office for National Statistics, almost a third of working age people do not expect to have any pension provision beyond the State Pension when they retire. *Given the importance of the State Pension to the retirement income of many people, we*

recommend the Government should expressly commit to the continuation of the triple lock. (Paragraph 59)

Self-employed people

9. The number of self-employed people saving in a pension has declined since the late1990s when it was around 48%, to around 16%. This is in stark contrast to the 88% of workers eligible for auto-enrolment participating in pension saving. Trials to encourage self-employed people into pension saving have not been effective. The former Minister for Pensions told us that the "lessons of automatic enrolment are that default is the only way to get big interventions" and that the aim was to trial this once Making Tax Digital was up and running. The employer contribution has also been key to the success of auto-enrolment for employees, providing an incentive to participate. *We recommend that HM Treasury and DWP work together to: (a) set a date to trial ways to default self-employed people into pension saving and; (b) consult on the proposal to increase the main rate of National Insurance paid by the self-employed (Class 4) by 3%, with the option to have the increase paid into a pension if the self-employed person also contributes 5% (including tax relief). Alongside that, the Government should consider how to promote pension saving to self-employed people.* (Paragraph 74)

Gig economy workers

10. We are concerned that many people working in the gig economy may be missing out on their right as a worker to build up a pension through auto-enrolment. The Pensions Regulator (TPR) told us it faces considerable challenges in enforcement, with employers challenging its decisions at every stage and having to meet a high evidential burden at tribunals. The Department for Business, Energy and Industrial Strategy issued guidance on 26 July 2022, bringing together existing case law. TPR told us that while this new guidance would be helpful to refer to in its discussions with employers and at tribunals, it would still need to evaluate decisions from employers on a case-by-case basis and argue its case at tribunal. We heard from Uber and the GMB that better enforcement arrangements are needed to ensure workers get their pension rights. *We repeat the recommendation made in two previous reports that the Government should bring forward an Employment Bill for parliamentary scrutiny as soon as possible to increase the legal protection available to people in low-paid work and the gig economy. In the meantime, we recommend that DWP should work with TPR to estimate how many people working in the gig economy should be classed as workers and what resources or powers TPR needs to be able to ensure employers in the sector comply with their auto-enrolment duties. They should report back to us by March 2023.* (Paragraph 85)

11. We support TPR's efforts to encourage gig economy employers to offer pensions to those workers who do not come under the definition in the Pensions Act 2008. *We recommend that DWP explore what steps could be taken to support this, including through the development of sectoral pension schemes, available to any employer in a sector that wants to use it.* (Paragraph 88)

The gender pensions gap

12. There is no consensus on how gender pension gap should be defined or any target to reduce it. Reports produced by stakeholders to inform the debate suggest the gap is significant and that little sustained progress is being made to reduce it. *We recommend that the Department for Work and Pensions work with colleagues across government and other stakeholders to agree a definition of the gender pension gap and a target to reduce it.* (Paragraph 91)

13. *We recommend the Government consider the case for a carer's credit, for example, to their auto-enrolment pension. If it chooses not to do so, it must explain its alternative plan to address the gender pension gap mainly caused by labour market inequalities.* (Paragraph 95)

14. We heard that the level at which the auto-enrolment earnings trigger is set (£10,000) currently excludes too many people, with the result that they miss out on employer contributions and tax relief. We heard calls for it to be reduced or removed. We also heard that any such decision needed to be informed by a better understanding of the circumstances of low earners and the likely impact of any change on them. DWP plans to publish research in early 2023 which may help inform this. *Following publication of this research, DWP should write to us setting out a timetable to review the level at which the earnings trigger is set and, if it is unable to do so, explain what action it intends to take to address the exclusion of low earners from auto-enrolment. We also recommend that DWP and HM Treasury continue to explore ways to bring multiple jobholders within the scope or auto-enrolment, for example, by amending the PAYE coding notice system to add an instruction to auto-enrol.* (Paragraph 102)

15. We welcome the Government's recognition of the importance of addressing the fact that some low earners (disproportionately women) miss out on tax relief because their pension scheme uses the 'net pay' arrangement for tax relief. Given this is a long-standing concern, it is disappointing that the first payments will not be made until 2025/26 and that those eligible will have to take action to receive payment. *We recommend HM Treasury consider whether payments can be brought forward and, if not, whether arrangements can be put in place for backdating payments, at least to 2021/22, when the plans to equalise outcomes for low earning pension savers were first announced. We urge the Government to set out its strategy for maximising take-up and explain how it will work with stakeholder organisations on this.* (Paragraph 108)

16. Divorced women's pensions are much lower than those of men. There appear to be no reliable, regularly reported statistics on the number of pension sharing orders made on divorce. Research indicates that it may be as low as 5% of divorces. *As a first step towards a strategy to improve take-up of pension sharing on divorce, we recommend that DWP work with the Ministry of Justice and experts in the area to produce regular and reliable statistics on pension sharing orders. It should report to us on its plans for this by March 2023.* (Paragraph 113)

17. Almost half a million people have stopped claiming Child Benefit since 2013 to avoid the High Income Child Benefit charge. *We recommend that DWP explain what arrangements it intends to put in place to ensure this does not have a detrimental impact on their State Pension entitlement.* (Paragraph 117)

Guidance

18. MaPS Chief Executive, Caroline Siarkiewicz, told us that the biggest challenge was working out how to help people understand their options and choices, "bearing in mind the huge numbers of people who do not know where to go for that." MoneyHelper Pensions guidance is an important service, able to help people engage with their pensions and support them with decision-making at important points such as divorce. MaPS has capacity to deliver 205,000 such pensions guidance sessions this year. It is not clear whether this is optimum or whether more people could benefit from the service if there was a concerted effort to increase take-up. *We recommend that DWP and MaPS consider how the mechanisms available to increase take-up of Pension Wise—signposting requirements and a dedicated media and marketing budget—could be applied to MoneyHelper Pensions. MaPS should explain the role it expects its pensions guidance services to play in meeting its goal to have 5 million more people understanding enough to plan for and in later life by 2030. It should also explain how it plans to work with employers to ensure they play their part in meeting this goal.* (Paragraph 123)

19. We heard that concerns about stepping over the boundary from guidance into advice continue to constrain the support that pension schemes and employers can provide to savers. The regulators are working with pension schemes and providers to better understand these concerns and to gather practical examples of where this is causing a problem. *We recommend DWP and the FCA report to us on progress in clarifying the boundary between advice and guidance by March 2023.* (Paragraph 126)

20. It is clearly important that pension schemes can provide pension scheme members who have been auto-enrolled with information and tools to help them engage with their pensions. *We recommend that TPR report back to us by March 2023 on the progress that has been made in resolving concerns that the Privacy and Electronic Communications Regulations prevent schemes from doing so.* (Paragraph 128)

21. We welcome the work being done to improve engagement and support savers in making decisions while they save, for example, through the development of pensions dashboards and the Mid-Life MoT and simpler annual benefit statements. *DWP, MaPS and the FCA should continue to explore ways that savers can be supported to take control of their finances through information, education and support from pension schemes and employers.* We also welcome the fact that, alongside this, initiatives are being progressed with the aim of improving outcomes for savers even if they do not engage, such as the development of a framework to help employers judge whether the scheme they have chosen for auto-enrolment represents good value for money for savers. As we said in our report on Accessing Pension Savings, there is demand for the further development of Collective Defined Contribution (CDC) schemes in future and it is right the Government continues to support this. We will return to look at these initiatives as they develop. (Paragraph 137)

How to move forward

22. We heard that there is a consensus that auto-enrolment has been successful in increasing participation in workplace pension saving but also that it is time to address the challenges which mean many people are unaware they are not saving enough for

an adequate income in retirement. There is a need to forge a consensus on the future direction, including employers, trade unions, the pensions industry and the wider public. This will require a cross-government commitment to develop a plan and build this consensus. In some areas—such as how to increase self-employed pension saving, ensure any future increase in contributions is well-targeted, and increase pension sharing on divorce—a better evidence base is needed to understand the issues. *We recommend that the Government set up a new office tasked with: building and maintaining an evidence base; explaining the trade-offs involved in different policies; reporting regularly to Parliament on progress in meeting objectives relating to retirement adequacy and the gender pension gap.* (Paragraph 141)

Formal minutes

Wednesday 21 September 2022

Members present

Rt Hon Sir Stephen Timms, in the Chair

Steve McCabe

Nigel Mills

Selaine Saxby

Dr Ben Spencer

Chris Stephens

Sir Desmond Swayne

Draft Report (*Protecting pension savers – five years on from the pension freedoms: Saving for later life*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 141 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 12 October at 9 am.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 23 February 2022

Chris Curry, Director, Pensions Policy Institute; **Carl Emmerson**, Deputy Director, Institute for Fiscal Studies; **Nigel Peaple**, Director of Policy and Advocacy, Pension and Lifetime Savings Association; **Rob Yuille**, Head of long-term savings policy, Association of British Insurers Q1–40

Wednesday 23 March 2022

Christopher Brooks, Head of Policy, Age UK; **Sue Ferns**, Senior Deputy General Secretary, Prospect Union; **Nigel Stanley**, Chair, NEST Members' Panel; **Sophia Dimitriadis**, Senior Economist, International Longevity Centre Q41–85

Leah Evans, Chair of IFoA Pensions Board, Institute and Faculty of Actuaries; **Steven Taylor**, Honorary Secretary, Association of Consulting Actuaries; **Martin Willis**, Chair of Defined Contribution Committee; **Laurie Edmans**, Commissioner, Financial Inclusion Commission Q41–85

Wednesday 27 April 2022

Will Sandbrook, Managing Director for Strategy, Analytics and Nest Insight, NEST; **Philip Brown**, Director of Policy, B&CE, the People's Pension; **Darren Philp**, Director of Policy and Market Engagement, Smart Pension; **Joanne Segars**, Chair of the Board of Trustees, NOW:Pensions Q86–125

Jamie Jenkins, Director of Policy & External Affairs, Royal London; **Colin Clarke**, Head of Regulatory Change (Product Development), Workplace DC Pensions, Legal and General; **Peter Glancy**, Head of Pensions Policy, Scottish Widows; **Chris Noon**, Equity Partner, Hymans Robertson Q86–125

Wednesday 8 June 2022

The Baroness Drake CBE, Former member of the Turner Pension Commission; **The Baroness Altmann CBE**, Former Pensions Minister, 2015 - 2016; **Sir Steve Webb**, Former Pensions Minister 2010–2015 Q126–187

Sarah Pritchard, Executive Director of Markets, Financial Conduct Authority; **Caroline Siarkiewicz**, CEO, Money and Pensions Service; **Charles Counsell**, Chief Executive, The Pensions Regulator Q126–187

Wednesday 15 June 2022

Terry Pullinger, Deputy General Secretary, Communication Workers Union; **Jack Jones**, Policy and campaigns support officer, Trade Union Congress (TUC); **Anna Mowbray**, Research and Policy Officer, Community Q188–264

Tom Blenkinsop, Senior Public Affairs Advisor, Federation of Small Businesses (FSB); **Jamie Heywood**, Regional General Manager for Northern Europe, Uber; **Tim Jones**, Executive Director, Tata Limited; **Gary Dewin**, People Director – Pensions, Reward, Wellbeing and Employee Relations, The Co-op Group; **Carol Young**, Director, Reward & Employment, NatWest Group Q188–264

Wednesday 6 July 2022

Guy Opperman MP, Minister for Pensions and Financial Inclusion, Department of Work and Pensions; **Joanne Gibson**, Acting Director of Private Pensions and ALBs, Department for Work and Pensions Q265–327

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

PSL numbers are generated by the evidence processing system and so may not be complete.

1 AJ Bell (PSL0039)

2 Aegon UK (PSL0012)

3 Age UK (PSL0018)

4 Altmann, Baroness (PSL0069)

5 Anonymised (PSL0049)

6 Aon (PSL0011)

7 Association of British Insurers (PSL0036)

8 Association of Consulting Actuaries (PSL0030)

9 Aviva (PSL0020)

10 B&CE providers of The People's Pension (PSL0052)

11 B&CE providers of The People's Pension (PSL0041)

12 BlackRock UK Institutional Client Business (PSL0042)

13 Department for Work and Pensions (PSL0047)

14 Federation of Small Businesses (FSB) (PSL0068)

15 Federation of Small Businesses FSB (PSL0054)

16 Financial Conduct Authority (PSL0046)

17 Financial Inclusion Commission (PSL0032)

18 Financial Services Consumer Panel (PSL0064)

19 GMB Union (PSL0067)

20 Hymans Robertson (PSL0050)

21 Hymans Robertson (PSL0037)

22 Institute for Fiscal Studies (PSL0034)

23 interactive investor (PSL0027)

24 International Longevity Centre (PSL0048)

25 International Longevity Centre-UK (PSL0045)

26 Just Group (PSL0024)

27 LV= (PSL0016)

28 Legal & General (PSL0038)

29 Uber London Ltd (PSL0072)

30 M&G PLC (PSL0021)

31 Money and Pensions Service (PSL0063)

32 NOW: Pensions (PSL0028)

33 Octopus Group (PSL0026)

34 Padley, Matt (Associate Director and Senior Research Fellow, Centre for Research in Social Policy, Loughborough University) (PSL0019)
35 Pensions and Lifetime Savings Association (PSL0040)
36 Price, Professor Debora (PSL0065)
37 Prospect (PSL0025)
38 Regulator, The Pensions (PSL0043)
39 Responsible Life Limited (PSL0010)
40 Royal London (PSL0031)
41 Scottish Widows (PSL0055)
42 Scottish Widows (PSL0023)
43 Silver Marketing Association (PSL0014)
44 Smart Pension (PSL0033) 1st
45 St. James's Place (PSL0029)
46 Tata Limited (PSL0070)
47 Tesco (PSL0073)
48 The Institute and Faculty of Actuaries (IFoA) (PSL0035)
49 The Investing and Saving Alliance (TISA) (PSL0013)
50 The Society of Pension Professionals (PSL0022)
51 Trades Union Congress (TUC) (PSL0061)
52 Universities Superannuation Scheme (PSL0071)
53 Webb, Sir Steve (PSL0066)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	The appointment of Dominic Harris as the Pensions Ombudsman and the Pension Protection Fund Ombudsman	HC 465
2nd	The cost of living	HC 129
1st Special	Children in poverty: No recourse to public funds: Government Response	HC 328
2nd Special	The Health and Safety Executive's approach to asbestos management: Government Response to the Committee's Sixth Report of Session 2021–22	HC 633
3rd Special	The cost of living: Government Response to the Committee's Second Report of Session 2022–23	HC 671

Session 2021–22

Number	Title	Reference
1st	DWP's preparations for changes in the world of work	HC 216
2nd	Disability employment gap	HC 189
3rd	Children in poverty: Measurement and targets	HC 188
4th	Pension stewardship and COP26	HC 238
5th	Protecting pension savers—five years on from the Pension Freedoms: Accessing pension savings	HC 237
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6th	The appointment of Sarah Smart as Chair of the Pensions Regulator	HC 1358