Written evidence from the Department for Work and Pensions & HM Treasury (PSL0047)

Contents

Introduction

1. This Government believes that it is important to ensure that the pensions system is fit for the challenges of the twenty-first century; it needs to empower people to save and to exercise choice over how they access their pension at retirement. Since 2010, we have made security in retirement a central part of our reforms through the introduction of automatic enrolment, the single tier new state pension, pension freedoms and the triple lock.

2. Automatic enrolment (AE) has transformed pension participation – reversing the previous decline and achieving a significant participation rate. In the private sector, workplace pension participation for eligible employees increased by 44 percentage points since 2012, to 86% in 2020; participation for women increased from 40% to 86%; and for 22-29 year olds from 24% to 84%[1]. Over 10 million employees have been automatically enrolled into a workplace pension by December 2021[2].

3. However, the success that automatic enrolment has achieved to date is not the end of the story. We are also working hard to improve saver outcomes, delivering a number of initiatives which seek to:
    - understand gaps in the provision of AE, and consider how much further AE could take us;
    - reduce costs, increase transparency, and protect benefits within the system;
    - improve information provision and guidance and build a framework that equips people to engage beyond AE;
    - explore how to tackle the challenge of saver engagement, planning and saving behaviours, to achieve outcomes beyond the AE levels.

4. This submission focuses on Private Pension saving – however this is only one among a number of ways of saving for later life. Some may be accumulating wealth in other assets, some may plan to work into or phase their retirement.

5. State Pensions are a key part of the system, providing a foundation retirement income which savers can build on through private pension saving. Relative to earnings, the basic State Pension is the highest it has been for 33 years. Government also provides a safety-net income (Pension Credit) for those who have been unable to build a full contribution based State Pension and have insufficient private income to make up the shortfall. Annual spending on benefits for pensioners in 2020/21 is around £130billion.

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[1] Workplace pension participation and savings trends of eligible employees: 2009 to 2020 - GOV.UK (www.gov.uk)

[2] Automatic enrolment declaration of compliance report | The Pensions Regulator

6. A number of parties have key roles and responsibilities to support savers in pensions planning and saving for retirement - including government (DWP, HMT), regulators (FCA, TPR), MaPS, pension schemes and providers, and the wider pensions and advice industry. We work closely together to ensure the system works.
   - HM Treasury are responsible for the tax regime that supports and incentivises saving, and also for Financial Services Policy including financial advice and guidance and those areas of the pension market regulated by the Financial Conduct Authority (FCA)
   - DWP regulates the occupational pensions market, and is also responsible for Automatic Enrolment policy, stewardship of pensions arm's length bodies including the Pensions Regulator, and the Money and Pensions Service (MaPS).
   - Pension schemes and providers, and the wider pensions and advice industry also have a key role in the products and services they provide to savers.

7. **The answers to the W&PSC questions in this document focus on DWP areas of responsibility.**

8. **In addition, information is also provided on the following HM Treasury policy matters:**
   - **tax relief for low earners in 'net pay' arrangements**
   - **normal minimum pension age (NMPA)**
   - **pension freedoms**

WPSC QUESTIONS

Q1 Do households in the UK have adequate pension savings for retirement?

- ***This Government wants all pensioners to have a decent and secure income in retirement. The State Pension is the foundation of support for older people. Relative to earnings, the basic State Pension is the highest it has been for 33 years. The full yearly basic State Pension is now £2,050 higher, in cash terms, than in 2010.***
- ***Automatic enrolment means more people than ever before will have an income beyond that provided by the State Pension.***

Further details

9. This Government wants all pensioners to have a decent and secure income in retirement. The **State Pension** is the foundation of support for older people. In 2016, we reformed the State Pension system, introducing the new State Pension to be simpler, clearer and to act as a sustainable foundation for individuals' private saving.

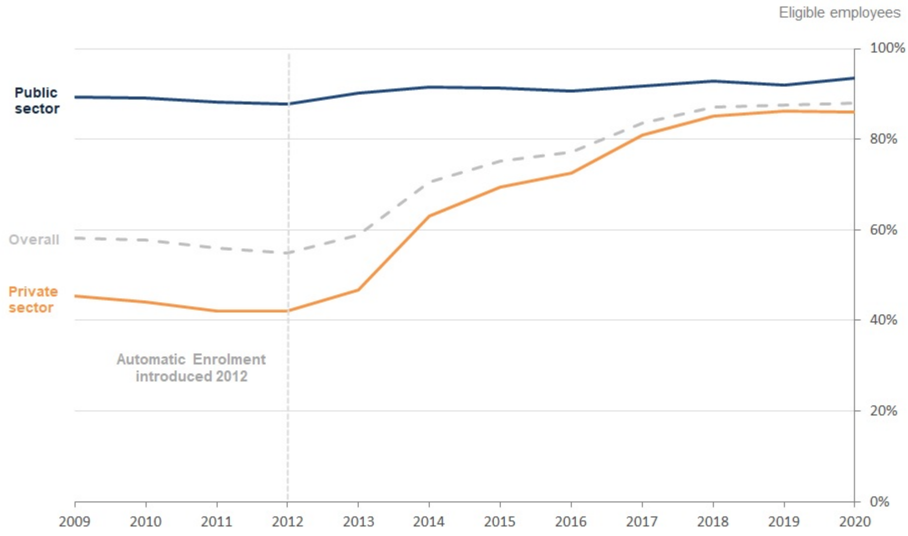
10. Annual spending on benefits for pensioners in 2020/21 is forecast to be over £129billion[3] in real terms. This includes spending on the State Pension which is nearly £105bn. Relative to earnings, the basic State Pension is the highest it has been for 33 years. The full yearly amount of the basic State Pension in 2021/22 was worth over £2,050 more in cash terms than it was in 2010[4]. There are 200,000 fewer pensioners in absolute poverty (both before and after housing costs) than in 2009/10.[5]

11. The success of **Automatic Enrolment (AE)** means that more people than ever before are building savings that will take them beyond the State Pension income level. Over 10 million employees had been automatically enrolled into a workplace pension by December 2021[6]. In the private sector, workplace pension participation for eligible employees increased by 44 percentage points since 2012, to 86% in 2020.[7]

12. Using The Pensions Commission Target Replacement Rate methodology and based on existing automatic enrolment rules on coverage and contributions, it is estimated that the introduction of automatic enrolment increased the number of individuals projected to meet their target replacement rate by 2 million[8]. Gross average income from occupational pension has continued to increase. For pensioner units where the head is below 75, it has increased 23% from 2009/10 to 2019/20.[9]

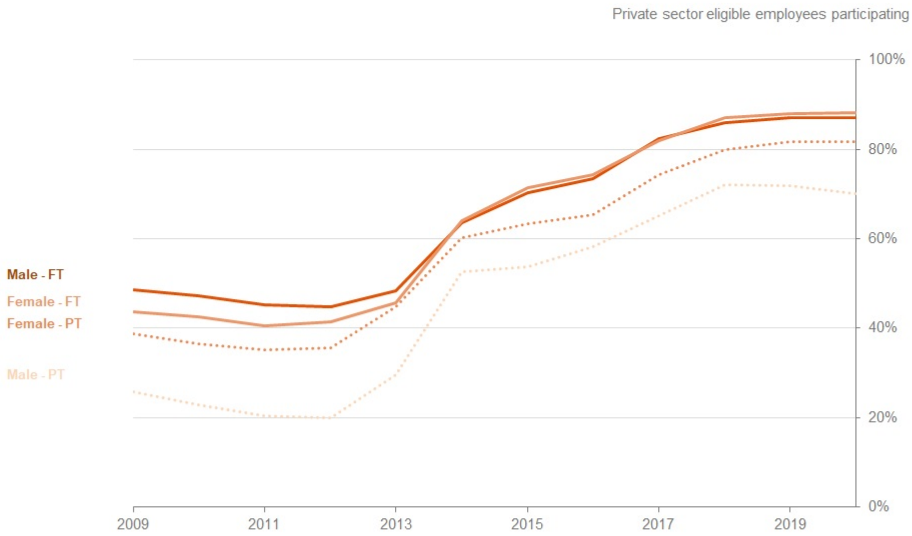
Eligible employee workplace pension participation rate to 2020

[3] Benefit expenditure and caseload tables 2021 - GOV.UK (www.gov.uk)
[4] Based on weekly bSP figures for 2010/11 and 2021/22 (rounded down to nearest £50) State Pension Uprating - House of Commons Library (parliament.uk)
[5] Households below average income: an analysis of the income distribution FYE 1995 to FYE 2020 - GOV.UK (www.gov.uk)
[6] Automatic enrolment declaration of compliance report | The Pensions Regulator
[7] Workplace pension participation and savings trends: 2009 to 2020 - GOV.UK (www.gov.uk)
[8] Automatic Enrolment 2017 Review: Analytical Report https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/668657/automatic-enrolment-review-2017-analytical-report.pdf
[9] Pensioners' Incomes Series: financial year 2019 to 2020 - GOV.UK (www.gov.uk)



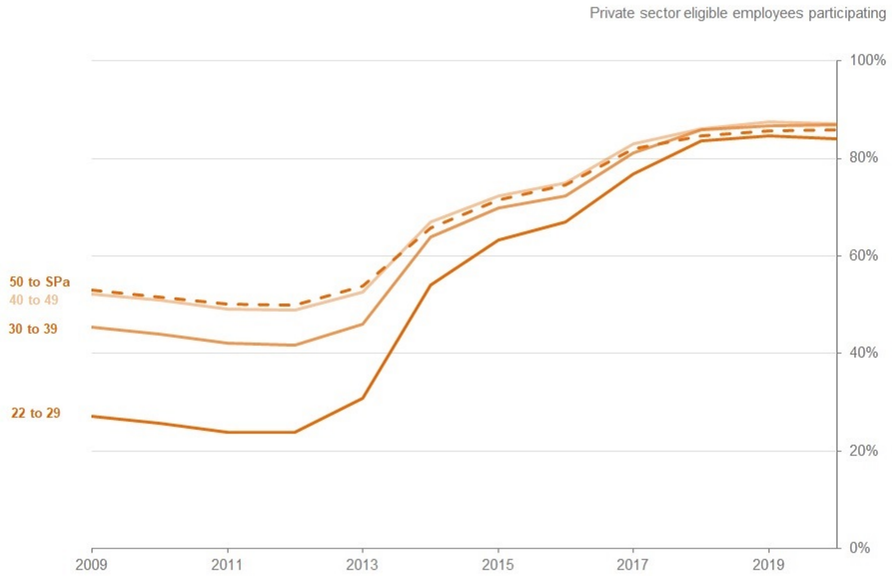
Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2020

Participation by gender and working pattern for private sector eligible employees to 2020



Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2020

Participation by age for private sector eligible employees to 2020



Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2020

13. It is important that savers consider whether they need to save more on top of AE to achieve the retirement they want - we have introduced Simpler Annual Benefit Statements and will be providing the framework for the delivery of Pensions Dashboards to make it easier for people to review and plan for their retirement needs.

14. Pension savings are only one way of funding retirement – **other income and wealth or assets** are also an important part of the picture about financial security in later life.

- In 2019/20, 69% of all pensioners received income from private pension, 62% of all pensioners received investment income and 15% of pensioners were in receipt of earnings[10].
- The Wealth and Assets Survey[11] shows that for those SPa and over, 24% of their wealth is made up of private pensions, 43% net property, 12% physical wealth and 5% net financial.

[10] Pensioners' Incomes Series: financial year 2019 to 2020 - GOV.UK (www.gov.uk)
[11] Household total wealth in Great Britain - Office for National Statistics (ons.gov.uk)

Q2 Are changes needed to auto-enrolment to provide an adequate level of pension savings for retirement?

- ***The government is committed to implementing the ambitions set out in the 2017 Review of Automatic Enrolment.***
- ***However, AE is only part of the system and we are working to encourage savers to engage with their pensions and build our evidence base to explore decisions on the balance between future changes to AE and voluntary saving***

Further details

15. Automatic enrolment has transformed the way people save for their retirement. Since 2012, over 10.6 million people have been automatically enrolled into a workplace pension by over 1.9 million employers[12]. The government has successfully implemented the original automatic enrolment policy blueprint, with minimum statutory pension contributions increasing to 8 per cent (based on a band of earnings) since April 2019. This has made it easier for individuals to build retirement provision, on top of the state pension foundation and alongside voluntary saving and decisions about staying in work longer. We recognise, however, that there is more to do to ensure younger people, part-time workers and self-employed people achieve greater security in later life. We also know that there is more to do to enable people, in particular low and moderate earners, to achieve their retirement aspirations.
16. We review the AE thresholds annually to ensure that it ‘pays to save’ for people brought into pension saving and that the costs and benefits to individuals and employers are appropriately balanced. Taken together, the AE thresholds govern eligibility for enrolment and the band of earnings on which employee/employer contributions are calculated. We have frozen the AE thresholds for the tax year 2022/23. Freezing the earnings trigger will bring 17,000 more people into pension saving many of whom will be woman and low earners. We are also freezing the earnings bands at which contributions are payable, which will help ensure pensions savings would be broadly maintained – and slightly increased – compared to last year.
17. In addition, we have committed to make changes to the automatic enrolment framework. The government’s ambitions, as set out in the 2017 Review of AE[13], will enable people to save more and to start saving earlier. Extending eligibility for automatic enrolment from age 22 to age 18 would help create a more robust and inclusive savings culture and support younger generations to save for a

[12] Automatic enrolment declaration of compliance report | The Pensions Regulator
[13] Automatic enrolment review 2017: Maintaining the momentum - GOV.UK (www.gov.uk)

more secure retirement. Removing the lower earnings limit in automatic enrolment means contributions would be made from the first pound earned, which would increase savings levels and proportionately benefit the lowest earners the most.

18. The government remains committed to implementing these core measures in the mid-2020s, subject to engagement with stakeholders on the implementation approach and finding ways to make these changes affordable.

19. Alongside the 2017 Review measures, which represent an important first step to build on the success of the current system, we are making changes aimed at improving opportunity for savers to engage with their pension saving, including through Pensions Dashboards.

Q3 What advice and guidance do people need when saving for retirement?

- ***The Government is committed to ensuring that consumers can access high-quality, affordable and suitable financial advice, as well as free-to-access financial guidance, when they need it.***
- ***HM Treasury, who leads policy on financial advice, works closely with the Financial Conduct Authority (FCA), who are the independent regulator of the UK's financial advice market, to ensure that this market works well, competitively and fairly for both firms and consumers, and that the advice being provided is of high quality.***
- ***The advice and/or guidance someone needs or could benefit from depends on their personal circumstances and will likely be different at different points in their life.***
- ***The Government also ensures everyone has access to free impartial pension guidance through the Money and Pensions Service.***
- ***We use multiple methods to make people aware that guidance is available, and where appropriate, encourage or nudge them towards it. In some specific circumstances, we require members to receive guidance or advice before a transaction is completed.***
- ***To benefit from advice or guidance, people need to be able to access details about their pension savings. Pensions dashboards and Simpler Annual Benefit Statements will help ensure people have information about their pension savings they can understand and will support the advice and guidance process.***

<u>Further details</u>

20. At various points before they retire, people may need or want to make decisions about a range of issues, such as:
    - what standard of living they would like to have in retirement;
    - how much to save, based on the standard of living they would like to have in retirement, and current demands on their income;
    - investment options; whether to consolidate their pensions, change from default funds or transfer savings between funds or providers, for example to reduce charges or get better returns;
    - when to access their savings and when to retire; and
    - how they plan to access their savings in retirement, to inform decisions about how much they need to save.

21. Individuals may benefit from advice, guidance or information about any of these issues, at various points in their lives.

22. While there are many sources of guidance about pensions, including pension providers, the Government ensures free and impartial guidance about all pension issues is available to everyone through the Money and Pensions Service (MaPS). MaPS provides pensions guidance through MoneyHelper Pensions and Pension Wise.

23. 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.

24. Pension Wise provides structured guidance specifically about accessing Defined Contribution savings through the options available under Pension Freedoms.

25. The Government supports MaPS' guidance transformation strategy, which will increase the flexibility of pension guidance services and provide individuals with the pensions guidance that is appropriate to their circumstances without having to refer people between services.

26. Ensuring guidance is available does not automatically result in those who would benefit from it using it. We have put in place and are developing a variety of measures to encourage use of the right guidance at the right time.

27. There are some clear points where the individual is actively considering their pension and nudges to guidance can be built into the system. For example, when a member contacts their scheme to request access or ask about options for accessing their savings through Pension Freedoms, the Stronger Nudge Regulations, which will come into force in June 2022, will require the scheme to nudge the member to Pension Wise guidance.

28. We've also made advice/guidance mandatory at some points. For example, when transferring savings from a Defined Benefit to a Defined Contribution

scheme (The Pension Schemes Act 2015 (Transitional Provisions and Appropriate Independent Advice) Regulations 2015)), or where a transfer is identified as being at higher risk of being a scam (the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021).

29. Guidance and advice measures will also be supported by wider transformation in people’s ability to understand their pensions – through the dashboards and other measures we are developing to improve engagement.

30. Pensions dashboards will revolutionise the way people interact with their pension – enabling them to view their pensions information, including their State Pension, securely in one place online. They can help to reconnect people with lost pensions pots, raise awareness and understanding of pensions and transform how we think and plan for retirement.

31. Pensions dashboards can help to facilitate the guidance and advice processes by providing people with access to their pensions information at a time of their choosing. Also, by enabling easier access to pensions information, we envisage that dashboards will change how people perceive some of the challenges that historically prevented them from pursuing advice and guidance.

32. MaPS will provide a dashboard and undertake user research and testing to understand what questions people have upon seeing their data on dashboards. MaPS is developing a retirement planning hub which will wrap around their pension dashboard offering

33. We are currently consulting on draft regulations[14] to enable the delivery of pensions dashboards, and we will lay affirmative legislation when Parliamentary time allows.

34. In addition, we also prompt people to think about their pensions and where appropriate take guidance or advice. For example:

    - We have recently introduced Regulations to make Annual Benefit Statements for defined contribution schemes used for automatic enrolment much simpler and easier for members to understand. This will help increase engagement with pensions, and prompt people to seek further information and guidance.
    - We are also considering how to further harness the use of statements to drive engagement, and other ways to increase engagement with pensions.
    - We also ran a communications campaign ‘will the retirement you want be the retirement you get’, to encourage engagement with pension planning. We continue to evaluate the appropriateness of renewing this type of very direct messaging as the pandemic progresses and are looking at what campaigning could be done, with a softer approach to engage people with their pension provision and to help people build on the state pension foundation

[14] https://www.gov.uk/government/consultations/pensions-dashboards-consultation-on-the-draft-pensions-dashboards-regulations-2022/pensions-dashboards-consultation-on-the-draft-pensions-dashboards-regulations-2022

- There are signposts to guidance in wake up packs and the Mid-life MOT, which both MaPS and private sector organisations provide versions of.

Q4 Could retirement income targets help savers plan for retirement?

- ***Measures or indicators, that support people to work out what might be right for them, can be helpful but it depends on relevant circumstances.***
- ***However, aspirations and wider finances tend to be highly personal and individual - therefore generalised measures or indicators can only be a first step for planning.***
- ***MaPS, and some industry bodies and providers, offer some helpful tools and support to help savers consider what they want to achieve and plan for it.***

Further details

35. Through MoneyHelper, MaPS offer the pension income calculator and use suggested target income for different salary ranges to help people work out what is right for them. MaPS also reference and signpost to the Pensions and Lifetime Savings Association retirement living standards during Pension Wise appointments. In 2022 and 2023 MaPS will be looking to update both the pension income calculator and budgeting tool, with consideration to include income targets within these tools.

36. The government has supported the concept and examples of some industry established targets, as helpful starting point for individuals to think about what they might want to achieve. Simpler Annual Benefit Statements include a section on what a member can do to give themselves more money in retirement and allow providers to add signposts to balanced and objective tools, which enable the member to consider their income and expenditure in retirement and what they might want to aim for. This can include links to a provider's own planning tools or those of others, such as MoneyHelper or the PLSA's Retirement Living Standards.

37. To help individuals take stock of their planning for later life, DWP launched a basic online mid-life MOT which brings together the wealth, work and wellbeing elements of the Mid-life MOT. The finance strand of the Mid-life MOT is intended to help people save for the later life that they want, enabling individuals to evaluate their personal situation and plan accordingly. The Mid-life MOT signposts to wider financial guidance such as MoneyHelper, to help individuals to access information on their financial options.

38. In April 2021 we ran ten 'digital discovery' tests with Local Enterprise Partnerships to test and evaluate localised approaches to delivery. We also established the Mid-life MOT Board in June 2021, 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.

39. Workers over the age of 50 are also set to benefit from a new enhanced support package to help them to stay in and return to work. This new package will ensure older workers will receive better information and guidance on later life planning, helping them make informed choices and supporting them to plan their career and remain in work.

Q5 Apart from increasing contributions, how can the Government improve outcomes for savers?

Government is taking action to improve outcome for savers in two main ways:

- ***improving individuals' ability to access information and understand their own savings, with appropriate access to guidance and advice, so they can make decisions that are right for their circumstances - for example, through the Simpler Annual Benefit Statement, dashboards, MaPS, helping consolidate small pots;***
- ***ensuring the market works as best as possible for the savers – this means***
    - ***reducing costs - for example capping and regulating fees, driving value for money, consolidating the market and***
    - ***removing barriers to enable the best possible returns - for example reducing barriers to trustees investing in a diversified range of assets, ensuring transparency about risks and opportunities, such as climate change***

<u>Further details</u>

Improving individuals' ability to access information and understand their own savings

Simpler Annual Benefit Statement

40. The simpler statement for defined contribution schemes used for automatic enrolment will mean that pension savers have easily understandable information about their savings and scheme – to help them engage with pensions, and prompt pension savers to seek further information and guidance.

41. We are also looking at ways we could enhance the impact of Simpler Annual Benefit Statements. It is important that pension savers have access to the information they need about their pensions to ensure they can maximise their savings through their working life. We also want to raise awareness of the

importance of planning for retirement. We are therefore working closely with the pensions industry on wider engagement initiatives to benefit members.

Pensions Dashboards

42. As highlighted above, pensions dashboards have the potential to transform the way in which people interact with their pension savings. Facilitating straightforward access to their pensions information, including their State Pension, can help people to more effectively plan for their retirement. The information available on dashboards plus the use of signposting to guidance or advice will put consumers in a better position to consider what next steps, if any, they might wish to explore and help to inform their decision making.

Small Pots

43. Consolidation of deferred small pots will help to ensure the market works better and provides more value for savers. The first stage in developing effective and durable solutions is for pension providers to investigate and tackle the administrative challenges and where the costs occur in the transfer process. The ABI/PLSA report indicates positive progress, including the member exchange feasibility study ahead of a potential pilot.

Reducing costs in the market

Charges

44. The government is committed to protecting automatically enrolled members from high and unfair charges. The current 0.75% charge cap applies to savers in the default fund and new regulations will come into force from April 2022 which protect savings at or below £100 from flat fee charges. This will reduce the risk of those savings being eroded or even charged out to zero.

45. To improve transparency of charges and make product comparisons easier, we consulted on rationalising the three AE permitted charging structures[15] into one. We are considering the responses alongside other evidence and will publish our response in due course.

Value for Money

46. We are building on work done by FCA/TPR to develop a value for money framework to ensure pension savings are well invested and not eroded by high costs. We want to shift the focus away from cost onto overall value - ensuring investment performance creates better long-term outcomes for savers.

Consolidation

47. To help savers benefit from economies of scale, better governance, lower running costs and a more sophisticated and diverse investment strategy and ultimately better long term outcomes, we are developing proposals to

[15] Permitted charges within Defined Contribution pension schemes - GOV.UK (www.gov.uk)

encourage and accelerate consolidation in the DC Pension market. This work builds on feedback from our call for evidence[16].

Removing barriers to enable the best possible returns

Investment

48. We want savers in DC schemes to benefit from long term investment in a wide range of suitable assets that could deliver greater returns. We are taking practical steps to remove barriers that currently prevent trustees from investing in longer term, less liquid assets. This includes taking forward the recommendations of the Productive Finance Working Group, a government-sponsored industry forum on illiquid investments. Our consultation on exempting performance fees from the charge cap is a good example of this.

Q6 Can pension providers change the design of pension products to improve outcomes for savers?

- ***Yes. Our two main priorities on pension products, in addition to the above measures, are exploring how the development of Collective Defined Contribution (CDC) schemes, and a focus on longer term investments, could deliver better outcomes for savers.***

Further details

CDC

49. Following the introduction of Collective Defined Contribution pensions as a new vehicle for pension saving in the Pension Schemes Act 2021, we published draft affirmative CDC regulations in December 2021. These have been laid before Parliament and subject to parliamentary approval, we are on track to then lay an associated set of negative regulations in March 2022. This would mean that from Summer 2022 CDC schemes will be able to seek authorisation to operate.

50. To assess the potential to make this provision more widely available beyond single and connected employers, DWP is currently engaged with a range of providers who are actively exploring with their advisors how CDC pension schemes can be used to give their members a better outcome in retirement. We are very encouraged by the enthusiasm and spirit of innovation that has been spurred by progress towards delivering the potential benefits of CDC.

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[16] Future of the defined contribution pension market: the case for greater consolidation - GOV.UK (www.gov.uk)

51. In late March, the Minister will be speaking at a joint event between the department and the Royal Society of Arts CDC Forum to discuss the potential for extending CDC provisions. This will be an opportunity to feedback what we have learnt so far, continue conversations on key themes we've heard from stakeholders and to consider any areas we need to explore further. Following further engagement with interested parties, we aim to be able to set out a proposed direction of travel later this year.

52. Overseas experience and extensive modelling in the UK has demonstrated that a well-designed and well-run CDC scheme can invest in return-seeking assets longer and can effectively smooth volatility around the point of converting a pension pot into an income product. This should provide, on average, a better outcome for members than might otherwise be the case. However, we are conscious that the quantum of that benefit is dependent upon the modelling assumptions and the nature of the comparator.

53. By pooling assets, the time horizon of a typical CDC scheme will be longer than the lifespan of an individual DC member. This will enable CDC schemes to have more innovative investment strategies. Given the longer time horizon and their scale, CDC schemes can seek greater investment returns through more productive assets, for example, infrastructure, and can hold these assets over a longer period than savers would otherwise be able to do individually. This has the potential to deliver better average outcomes for CDC savers compared with individual DC.

54. **Other approaches:** we are also looking closely at developments overseas such as the QSuper variable income product launched in Australia.

Investment

55. It is essential that providers and those who select a pension for their employees consider value for money holistically, rather than the solely focus on cost. We are working closely with the Financial Conduct Authority and the Pensions Regulator to develop a framework for holistic assessment of value for money both within and across pension providers, covering both the trust-based occupational market and the contract-based workplace side.

56. As part of this new framework, investment performance will play a greater role than it has in the past. We have made significant reforms here to require all occupational defined contribution schemes to disclose their investment returns net of fees for the first time. These rules, which came into force at the end of 2021, will ensure all actors have full sight of the performance of their pension, including savers themselves. This will encourage competition on the basis of overall value and not just costs.

57. We'd like to see providers explore longer term illiquid investments. Alongside encouraging competition, which should bring potentially higher-return assets like illiquid asset classes such as private equity and infrastructure into view, we have proposed to reform the charge cap to allow schemes to more easily pay

performance fees. This has been reported to be a significant barrier to schemes accessing private markets and should allow a substantive negotiation between asset managers and pension schemes on fees, helping to unlock private markets for ordinary pension savers.

Q7 What should the Government be doing to support self-employed people to save for retirement?

- ***We are working on several approaches; research and trialling activities to build our evidence base with partner organisations including HMRC. We are using behavioural insights which underpin the defaults and smart design of AE – for example through testing the role of systems surrounding self-employed people, including the tax system.***
- ***The changes introduced with the new State Pension system in 2016 have improved outcomes for self-employed people. People who have been self-employed for all their working lives are now able to receive over £2,150 more State Pension per year than under the previous system*.**

Further details

58. We acknowledge this an area of where there are issues and Government is are looking into what are the best actions to take from evaluating what research is telling us, but not all self-employed are under-saving[17]. In 2018 to 2020, households whose designated head was self-employed had higher total wealth than employees, but a greater proportion of their savings were in property rather than pensions[18]. While some are saving into a pension or have other wealth, a large proportion, particularly younger people, low/medium earners and those in less secure self-employments still have gaps in pension and/or other savings for retirement.

59. In most cases, individuals can join Nest if they are self-employed or the sole director of a company that doesn't employ anyone else. As part of the recent independent review of Nest, which DWP Ministers commissioned, the review identified there is a clear role for strengthening engagement with those members who identify as self-employed. The review report invited the Nest trustee to use the opportunity of its member engagement strategy refresh to identify learnings/insights to inform and maximise effective engagement strategies with their self-employed members

[17] Workplace pension participation and savings trends of eligible employees: 2009 to 2020 - GOV.UK (www.gov.uk)

[18] Household total wealth in Great Britain - Office for National Statistics (ons.gov.uk)

60. The department has been carrying out research and trialling activities to help build the evidence-base to identify the most effective way to make retirement saving easier for self-employed people. We are utilising the principles and learnings from behavioural insights which informed AE, and working with a broad range of partners, including HMRC and pension providers, to test targeted interventions.

61. Trials and research are exploring:
    - using behaviourally-inspired messages – including tax-incentive messages deployed at peak tax return period;
    - use of HMRC platforms by introducing prompts to pension guidance through the income tax self-assessment system; and
    - use of financial digital platforms and money management apps to test the role of tech-based nudges and value of flexible saving mechanisms.

62. We will explore the value of fuller-scale field trials, following analysis and evaluation of the HMRC trial and tech-based trials expected in Spring/Summer 2022.

63. Self-employment is highly diverse: incomes, assets, retirement savings and employment experiences vary widely and we recognise one solution would not necessarily fit all.

Q8 Are different or additional measures required to help gig economy workers save for retirement?

- ***Many gig economy workers are already eligible for AE – including fixed term contract, zero hours, and agency workers. The key challenges for this cohort are around compliance and employment status.***
- ***BEIS are leading on work to provide clarity around employment status and the Pensions Regulator has powers to take enforcement action so that eligible workers, no matter what sector they work in, have access to workplace pension saving.***

<u>Further details</u>

64. As part of the automatic enrolment (AE) legislative framework, all employers must enrol eligible workers into a qualifying workplace pension scheme and make contributions to their pension. The framing of this requirement means that many gig-economy or atypical workers will therefore already be eligible for AE, including those on fixed-term contracts, agency workers and those on zero-hours contracts if they meet the relevant age and earnings rules.

65. We recognise that the application of AE legislation to the gig-economy or atypical workers presents some significant areas of challenge. In a technology-driven, fast changing sector where the way people are engaged for services is

constantly evolving, determining employment status is key to the identification of worker rights and protections under employment legislation.

66. The Pensions Regulator monitors developments with the gig economy as part of its statutory objective to maximise employer compliance with the automatic enrolment obligations, and will take enforcement action when it becomes apparent that there are people with ‘employment’ status who are not being automatically enrolled. Following the Supreme Court Uber ruling on worker status for those working in the gig economy, the Regulator publicly called on ‘all employers in the gig economy to step up and do the right thing for their staff’, where they are workers. The Regulator is responsible for ensuring all eligible individuals are protected – no matter what sector they work in.

67. An individual’s rights at work, including their entitlement to AE, are determined by their employment status (employee, worker or self-employed) and not whether they are in the gig-economy. We therefore continue to work closely with BEIS through the work they are leading on to improve the clarity around employment status, ensuring there is due consideration of the implications for individuals’ eligibility for AE.

68. For those working in atypical arrangements, who identify as self-employed, the Nest scheme would be available to them through setting up a Nest online account; once set up their account they can keep their Nest pension pot, whether they stay self-employed, or decide to work for someone else.

Q9 Are there measures which the Government should consider to close the gender pension gap?

- ***Yes. We have delivered a number of changes and have more planned, but will continue to keep this challenge under review.***
- ***The new state pension and AE are enabling more women to build pension provision in their own right.***
- ***HMT announced a new system which will make top up payments to low earners in Net Pay schemes (many of whom are women) to address the net pay/relief at source anomaly.***
- ***In addition, we aim to implement changes to AE which would help lower earners, many of whom are women.***
- ***Wider work in DWP and across government is seeking to address some of the structural inequalities in the labour market which feed into the pension gender gap.***

Further details

69. Through the new state pension and AE, the Government is enabling more women to build up pension provision in their own right, reducing historical

inequalities in the pension system. In 2020, there were 4.2 million more eligible women across the public and private sectors participating in a pension than in 2012[19].

State Pension

70. Reforms to the State Pension have put measures in place to improve State Pension outcomes for most women. Over three million women stand to receive an average of £550 more per year by 2030 as a result of the recent reforms.[20]

Labour market

71. The gender pensions gap is mainly caused by inequality in the labour market, including differences in working patterns and earnings. Despite recent progress, there are still large gaps in economic activity and working patterns between men and women. We are committed to breaking down barriers and boosting opportunities for everyone, to ensure that no one is defined or limited by their gender. We are taking action to enable both parents to balance childcare with work by: supporting parents to access childcare and early years' education, increasing the take-up of paternity and shared parental leave; and making it easier for people to work flexibly.

Automatic Enrolment

72. Automatic Enrolment (AE) is designed specifically to help groups who historically have been poorly or less well served by the pensions market, in particular women and lower earners. AE has greatly increased the number of women who will benefit from a workplace pension; in 2012, 40% of eligible women in the private sector were participating in a workplace pension (for men this was 43%). As of 2020, this had increased to 86%, equal to men[21].

73. However, there is more to be done and our 2017 Review of Automatic Enrolment committed to enhancing the framework including reducing eligibility to age 18 and removing the lower earnings limit. This will help to generate more meaningful retirement savings for young adults and lower earners, including multiple job holders, many of whom will be women. Our ambition remains to introduce these changes in the mid-2020s. We will do this in light of the impact of the pandemic and our overall support for economic recovery.

Tax administration – Net pay /relief at source

74. HM Treasury recently announced that in order to better align outcomes for low-earning individuals saving in pension schemes, regardless of how their scheme

[19] Workplace pension participation and savings trends of eligible employees: 2009 to 2020 - GOV.UK (www.gov.uk)

[20] Impact of New State Pension (nSP) on an Individual's Pension Entitlement – Longer Term Effects of nSPhttps://www.gov.uk/government/uploads/system/uploads/attachment_data/file/491845/impact-of-new-state-pension-longer-term-reserach.pdf

[21] Workplace pension participation and savings trends: 2009 to 2020 - GOV.UK (www.gov.uk)

administers pensions tax relief, a system will be introduced to make top-up payments directly to low-earning individuals saving in pension schemes using a Net Pay Arrangement (NPA) from 2024-25 onwards. This will benefit low earners saving into NPA schemes, many of whom will be women.

Pension Sharing

75. A further issue that has historically impacted on the pension outcomes for women has been divorce. Pension sharing applies equally to men and women and enables part or all of the pension rights to be transferred as part of the divorce settlement or dissolution of a civil partnership – by a court order. Pension sharing recognises the contribution of both spouses to family life and income and gives divorcing couples greater scope to achieve a clean break on divorce.

Guidance

76. To help support savers, MoneyHelper's pensions guidance, delivered by the Money and Pension Service (MaPS) covers many aspects that impact women's pensions, including maternity leave, returning to work part-time and divorce. MaPS are looking at introducing improved tools that would help people to model the impact of their working patterns on their pensions.

Working with others

77. The department is continuing to work with regulators, the financial services industry and other relevant parties to build our understanding of the issues that lead to pensions inequalities, and work in partnership to support women's financial resilience.

HM Treasury – evidence submission

Tax relief for low earners in 'net pay' arrangements

78. There are currently two main methods of giving pensions tax relief. While they provide the same outcomes for most, low earners with taxable incomes below the Personal Allowance can have different levels of take-home pay depending on how their pension scheme is administered. Currently, low earners in schemes using Relief at Source (RAS) receive a 20% top-up on their pension saving (even if they pay no income tax) whilst those in schemes using a Net Pay Arrangement (NPA) receive tax relief at their marginal tax rate, i.e., 0% if their income is below the personal allowance. The effect is that low earners in schemes using NPAs have less take-home pay than they would if they were saving into a scheme that uses RAS.

79. To rectify this anomaly and equalise outcomes for pension savers, the Government is introducing a new system to make top-up payments directly to low-earning individuals saving in pension schemes using a NPA for contributions for the tax year 2024-25 onwards. HMRC will contact eligible customers after the end of the 2024-25 tax year and invite them to provide the necessary details for the top-up to be paid direct to their bank account. As a result of this change, low earning pension savers should receive similar outcomes regardless of how their pension scheme is being administered for tax purposes.

80. In 2025-26, up to 1.2m individuals – 75% of whom are women – could benefit from top-ups worth in total between £60m and £70m a year. The average top-up is expected to be around £50 a year.[22] However, the net benefit could be less for individuals who receive income-related benefits (e.g. Universal Credit) as the top-up will be counted as income and could reduce their welfare entitlements.

81. The IT changes required to implement this are complex. Given other ongoing HMRC delivery programmes, the system changes will be in place by April 2025. So, the first top-ups will be based on pension contributions made in 2024-25 and paid by 2026-27. Paying the top-up in arrears reduces burdens on individuals, employers, and pension schemes. An individual's tax position – and therefore their eligibility for a top-up – will only be known after the tax year ends when all sources of income are known. If top-ups were paid in-year, this would risk payments being made to individuals who would not ultimately be eligible for it. This would require repayment of the bonus from these individuals and would be challenging for both individuals and HMRC.

[22] Pensions tax relief administration: Call for Evidence Response – HM Treasury

82. HMRC will use customer insight experts and work with key stakeholders to design and develop a suitable digital service for these customers. HMRC appreciates that it will need to consider how and when it communicates with customers eligible for this top up payment and ensure they recognise it as a genuine communication from HMRC. For those individuals that are digitally excluded, HMRC will provide additional support services to enable them to receive payment.

Normal minimum pension age (NMPA)

83. The Chancellor recently announced an expansion of the Plan for Jobs, including measures to benefit workers over the age of 50 to help them to stay in or return to work. The Government's intention is that as many people as possible have adequate private savings over and above the State Pension to support the standard of living to which they aspire in retirement.

84. The Normal Minimum Pension Age is the minimum age at which most pension savers can access their private pensions without incurring an unauthorised payments tax charge unless they are retiring due to ill-health. As announced in 2014, NMPA will increase from age 55 to 57 in April 2028. Implementing the change in 2028 will afford individuals sufficient time to make or adjust their retirement plans.

85. Many pension savers and schemes will already be familiar with accessing different pensions at different ages depending on the individual rules of each scheme. Pension schemes and their advisers are best placed to understand which of their members will have unqualified rights to a protected pension age and to communicate this to affected members. Members who wish to raise a question about their scheme's pension age should contact their scheme providers to understand and manage their pension.

Pension freedoms

86. Pension freedoms were introduced in 2015 as a response to the changing shape and nature of retirement and to give individuals the choice as to how to access their own hard-earned savings. The government believes it is right that individuals are trusted to choose how to access their pension income.

87. It is nearly seven years since pension freedoms were introduced and, in that time, over £45bn has been accessed by over 1.6 million individuals.[23] The FCA concluded in their Retirement Outcomes Review that there was no significant evidence of consumers drawing down their savings too quickly.[24] The most recent retirement income market data reveals that of contract-based pension

[23] Flexible payments from pensions - GOV.UK (www.gov.uk)
[24] MS16/1.3: Retirement Outcomes Review Final report (fca.org.uk)

plans fully withdrawn at the first time of access, 9 out of 10 were for pot sizes less than £30,000.[25] Overall, the FCA have also found that DC pension pots are not the main source of private retirement savings for most current retirees.[26]

88. The Government takes consumer protection very seriously, and the creation of Pension Wise has helped inform consumers about the choices now available to them. In 2019-2020, 94% of Pension Wise appointment customers were very or fairly satisfied with their overall experience. Nine in ten appointment customers (91%) agreed that Pension Wise helped them to consider their pension access options more thoroughly, and 89% felt they learned something new from using the service.

89. We also support the work undertaken by the FCA, to simplify the information sent by contract-based providers and decisions consumers must make at retirement, including through the introduction of Investment Pathways in February last year. We welcome this work as it ensures that the market supports consumers in managing their retirement incomes.

March 2022

[25] Retirement income market data 2020/21 | FCA (https://www.fca.org.uk/data/retirement-income-market-data-2020-21)
[26] Retirement Outcomes Review | FCA (https://www.fca.org.uk/publications/market-studies/retirement-outcomes-review)