Written evidence from the Federation of Small Businesses PSL0054

FSB is a non-profit making, grassroots and non-party political business organisation that represents 160,000 members in every community across the UK. Set up in 1974, we are the authoritative voice on policy issues affecting the UK's 5.5 million small businesses, micro businesses and the self-employed.

- What would help employers support pension savers in making decisions while they save?

Small businesses do not generally have dedicated HR departments or pension teams, so we do not believe that they are best placed to guide or support employees in their pension decision making. Most small businesses will not have any expertise in this area and would in most cases look to someone outside the company to provide this kind of assistance. We have expressed support for the Mid-Life MOT initiative, for example, on the basis that government provides the funding to deliver it.

There are two main decisions employees can make about their workplace pension: how much to save (above the minimum amount), and what to invest in. In our view, there is a clear role for pension providers in explaining the benefits of pension saving, the possible impact of making additional contributions, and the pros and cons of particular investment choices (notwithstanding the fact that the default strategy of any scheme should be designed to meet the needs of its membership). Where individuals have questions and wish to get independent input, they can use MoneyHelper.

- When and how should the Government implement the key recommendations of the 2017 Automatic Enrolment review (for contributions to be paid on earnings from the first pound and to reduce the minimum age for auto-enrolment from 22 to 18)?

FSB supports the objectives of automatic enrolment and agrees in principle with the recommendations of the 2017 review. However, the current economic environment is very uncertain, and both small businesses and individual employees are facing significant cost increases. Government should conduct in-depth analysis of the impact of AE on small firms in conjunction with other employment costs before they seek to introduce proposals made in the 2017 auto-enrolment review. The Government's decision to increase National Insurance contributions from April 2022 means that employees, and indeed small employers, have less money to spend or invest. This squeeze means that any changes to lead to further increased contributions, in the midst of high inflation and a cost of living and cost of business crisis, would have a significant impact.

- Do minimum auto-enrolment contribution rates need to increase? If so, when and how?

We recognise that some workers will not reach their retirement goals if they only save the current minimum amount. However, any move to increase the minimum contributions for employees and employers should be considered carefully in light of the economic context. A detailed analysis of the costs and benefits for both individuals and businesses would need to be carried out, and this should consider the impact on small businesses separately given that they are less able to absorb additional costs than larger businesses. Any resulting increase should be phased in over a number of years, to give businesses time to prepare and adjust.

As noted above, The Government's decision to increase National Insurance contributions from April 2022 means that employees, and indeed small employers, have less money to spend or invest. This squeeze means that any changes to lead to further increased contributions, in the midst of high inflation and a cost of living and cost of business crisis, would have a significant impact.

- Some people have suggested that as contribution rates for workers increase, they should be able to 'opt down' to a lower contribution rate. Do you agree?

This flexibility is currently available to individuals who contribute more than the minimum, but it may undermine the intention of the policy if 'opting down' was widely used – assuming it is decided that current minimum contribution levels need to be increased. Perhaps, as currently happens with those who opt out, the contributions could be automatically returned to the minimum level after a set time period. Such a facility may also have an impact on the relative contributions of employers and employees – on the assumption that employers will not be allowed to reduce their contributions, it could be that in some cases employers would be contributing more than employees to pensions, which does not seem appropriate given that the pension fund is for the benefit of the employee.

- To what extent do employers offer encouragements to save more, for example, as salaries increase? Is there a role for Government intervention to encourage more of this?

We know that some employers offer matched contributions and/or share the savings on employers' national insurance contributions with the employee. With employment costs rising dramatically (in our most recent SBI survey 28% of members reported that average salaries had increased by 6% or more in the last twelve months), this could be offered in a greater amount and to far more people if the Government were to consider an incentive through the tax or national insurance system.

- Should the £10,000 'automatic enrolment trigger' (the level of earnings at which a worker must be auto enrolled) be reduced or removed altogether?

As with increasing the minimum contribution rates, we believe that significant analysis would need to be done on the impact on both employers and employees of any proposed change before it was introduced. Individuals earning less than £10,000 are generally not likely to face a significant income shock when they reach retirement. Some of these people might benefit from saving additional amounts for their retirement, but they can do this now by opting in to their employer's scheme. They might benefit more from saving into a workplace savings scheme, of the sort that NEST Insight has been exploring with its 'Jars' tool. We would support further work on this, and the extension of such initiatives to smaller businesses where possible and appropriate.

- Do we need a new Pensions Commission?

The model of the Low Pay Commission and the Migration Advisory Committee is possibly one that could be applied to pensions. A Pensions Commission could advise government on further changes to the auto-enrolment system, having considered input from interested stakeholders and the public.

- Self-employment

Pensions and savings coverage varies widely among the self-employed population. Whilst workplace pension participation of eligible employees has increased since 2012 the proportion of self-employed people actively contributing to a pension has decreased steadily over the last ten years.

There needs to be an incentive for the self-employed to save for retirement, which acknowledges the volatility of self-employed incomes. Government and pension providers need to find solutions to solve the under-saving problem for the self-employed, particularly for women and younger self-employed people.

To better support the self-employed to save into a pension, the Government should use the annual self-assessment process and/or other points of contact with the state as a means of promoting pensions savings for the sector.

In addition, 88% of the self-employed were previously employed and likely to have been auto enrolled into a workplace pension. Government and pension providers should create a way to smoothly transition between workplace pension schemes and personal pension schemes.

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