Written evidence from the Trades Union Congress – TUC (PSL0061)

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)?

The TUC believes the recommendations of the 2017 review should be implemented as soon as possible. Meeting the government's repeatedly stated intention of implementing the measures by the mid-2020s would require legislation to be introduced this in this session of Parliament. TUC analysis found that delaying removing the Lower Earnings Limit by six years could reduce the value of a low paid worker's pension pot by a sixth.[1]

Calculating pension contributions from the first pound of earnings would increase levels of pension saving, with low earners seeing the biggest increase. It would double the contributions of a worker earning £12,500 from £500 a year to £1,000 a year. This should be a priority, given the difficulties faced by those on low incomes in building up retirement savings. Analysis from the Pensions Policy Institute found that half of people on low incomes aged between 50 and 64 are currently at risk of falling below the Joseph Rowntree Foundation's minimum income standard in retirement.[2]

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

The priority should be to remove the Lower Earnings Limit and £10,000 earnings cap, which would boost pension saving among the lowest paid, where levels of participation and saving rates are lowest. But after this has been achieved the government must set out plans to increase minimum contribution rates. The government has recognised the need to raise rates beyond 8 per cent and committed to holding a review once the full rate had been phased in.

In February 2018, Parliamentary Under-Secretary of State for Pensions and Financial Inclusion said:

"On phasing, it is entirely right, as everybody has said on a cross-party basis, that 8% is not sufficient to retire. We all accept and realise that. The Government are crystal clear that it is not the end of the matter. We wish to continue with the April '18 and April '19 increases, and once we have done those, we will assess where we go thereafter. Hon. Members should be under no doubt that there is an acceptance in all parts of Government that 8% is not sufficient for a long-term retirement. There are various examples from around the world. Australia is several years ahead of us, and has pushed into double figures. That is clearly the direction of travel in which we will go at some stage."[3]

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[1] TUC, Government "dithering" on pension reforms could cost low earners thousands, February 2019 - https://www.tuc.org.uk/news/government-dithering-pension-reforms-could-cost-low-earners-thousands-0
[2] Centre for Ageing Better/PPI, Have we saved enough?, June 2021 - https://ageing-better.org.uk/sites/default/files/2021-06/Have-we-saved-enough.pdf
[3] House of Commons debate, Pensions Auto-enrolment, February 2018 - https://hansard.parliament.uk/commons/2018-02-28/debates/3CF99ACB-F1CE-4FE7-9AE6-203CC54809B7/PensionsAuto-Enrolment

As the final phased increase came into effect more than three years ago in April 2019, we believe it should be an urgent priority to carry out this review and set out clear plans to increase contribution rates.

Given the prevalence of low pay in the UK economy,[4] measures to increase total contribution rates should focus on raising employer contributions rather than employee contributions. The structure of minimum contribution levels under auto-enrolment has effectively reversed the expectation that employers would meet around two-thirds of the cost of provision [figures and reference to go here]. The TUC supports gradually increasing minimum employer contributions to from 3 per cent to 10 per cent so that combined employee and employer contributions reach the 15 per cent widely recognised as being necessary to provide a decent pension for most people.

The government should also explore other ways of increasing contributions rates. Promoting collective bargaining agreements between trade unions and employers that cover pension arrangements is one proven way of increasing contributions above minimum levels. The table below compares employer contribution rates of members of defined contribution and group personal pension schemes in general with the minimum and maximum employer contributions on offer at employers who have a trade union agreement that covers pensions. While 56 per cent and 41 per cent of all members in DC and GPP arrangements have contribution rates under 4 per cent, in 85 per cent of schemes covered by agreements the minimum contribution offered exceeds this. Some 62 per cent of schemes covered by agreements offer members the opportunity to get employer contributions of over 10 per cent.

Contribution band	**Percentage of members in all schemes**		**Percentage of schemes covered by collective bargaining agreements**	
	Defined contribution	**Group personal pension**	**Min DC contribution**	**Max DC contribution**
Zero	1	0.9	0	0
Under 4%	55	39.8	14.6	4.3
4% to < 8%	21.2	39.9	47.9	19.1
8% to < 10%	6.8	7	16.7	14.9
10% to < 12%	5.4	4.4	10.4	29.8
12% to < 15%	5.2	2.7	4.2	21.3
15% to < 20%	2.5	2	4.2	8.5

[4] Over one in seven jobs in every region and nation is paid less than the Real Living Wage – see TUC, *Levelling up at work - fixing work to level up across the UK*, October 2021 - https://www.tuc.org.uk/research-analysis/reports/levelling-work-fixing-work-level-across-uk

20% and over	2.9	3.3	2.1	2.1

Source: ONS and TUC analysis of Labour Research Department Payline data

Schemes negotiated with unions often auto-enrol workers on contribution structures that have a higher employer contribution structures than employee contribution structures, with matching contributions on offer if members increase their own contribution. This both incentivises workers to raise their own contribution levels and increases the likelihood that they will be able to afford to do so.

The TUC also believes that schemes that encourage workers to commit to increasing contribution rates linked to future pay rises such as 'Save more tomorrow' and kitemarks such as the Pension Quality Mark and the Living Pension accreditation currently being developed have role to play in increasing levels of pension saving.

It is likely that a combination of higher statutory minimum contribution rates, stronger rights for unions to bargain over pensions, and schemes to incentivise employers and workers to increase contribution rates will be necessary.

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?

If default employee contributions were to be increased, the TUC agrees that it would be necessary to allow members to opt down to a lower contribution rate, in order to guard against them opting out of the pension scheme altogether because they can't afford the contribution rates.

If increases to minimum contributions fall on employer rather than employee contributions there would be no need to introduce an opt down option, given low levels of opt out seen so far. Higher employer contributions would increase the incentive for workers to remain enrolled, and we could therefore expect to see a decrease in the already low opt out levels.

If the earnings threshold is removed it may also be necessary to allow low earners to opt down or opt out of employee contributions all together without losing their employer contributions.

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?

As outlined above, there are examples of contribution structures that increase incentives to stay in schemes with relatively high employer contribution rates, and incentivise workers to make additional contributions.

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

The TUC believes the trigger should be phased out completely. It reduces the likelihood of low earners participating in a workplace scheme and deprives them of the chance to benefit from employer contributions. In the private sector just 43 per cent of full-time employees earning between £100 and £199 belong to a workplace scheme (although the 88 per cent participation rate among public sector workers in the same pay band shows that workers on low incomes will join schemes if they are high quality and good value).[5] It would particularly benefit those people working multiple jobs that all fall below the earnings threshold but whose total earnings are above the threshold.

The trigger disproportionately affects women workers and black and minority ethnic workers who are more likely to be in jobs that fall below the threshold, and more likely to work multiple part-time jobs.

Removing the Lower Earnings Limit would also address concerns that removing the earnings trigger would result in a proliferation of micro pots caused by very low contribution levels. Although the amount contributed would still be small for a worker below the current threshold on minimum contribution rates, it would still build up a meaningful pot.

Given the delays in removing the LEL and the need to phase in new measures to minimise the risk of opt out it would be sensible to remove the earnings trigger first, and then phase out the LEL. This would have the effect of initially auto-enrolling workers below the current threshold on low contribution rates, and then gradually increasing them as the LEL is phased out.

Do we need a new Pensions Commission?

The TUC has long supported calls for a permanent Pension Commission. The first Pension Commission provided a model for policy making that brought together different stakeholders and established a cross party consensus on pensions policy that allowed auto-enrolment plans to survive the change of government in 2010.

A permanent pension commission would be able to assess long term trends and progress towards policy goals and propose new policy interventions where necessary. It is important that decisions on pensions policy remain in the hands of elected ministers, but a commission could improve the quality of decision making by providing evidence and proposing workable solutions, and ensuring that the impact of any individual policy decision on the whole pension system is carefully considered.

The original Pension Commission and the Low Pay Commission, which both provide good models for this kind of structure, include representatives from trade unions, employers and independent experts. The TUC believes this structure, which gives a voice for different stakeholders as well as technical experts, is essential to ensuring that any future pension commission is successful.

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[5] ONS, Employee workplace pensions in the UK: 2021 provisional and 2020 final results, April 2022