Written evidence from NOW: Pensions (PSL0028)

Overview

NOW: Pensions is an award-winning UK workplace pension provider. As a master trust, we look after the pension savings of tens of thousands of employers and millions of members from a wide range of industry sectors. We welcome the Committee's interest in this important topic.

NOW: Pensions has long taken an interest in how to improve savings for our members. We have worked in partnership with the Pensions Policy Institute for a number of years to look at the scale of the problem and how best to address the issues of chronic under saving for retirement. Our responses below highlight a number of issues which we believe urgently need addressing in order to ensure that we build on the successes for the first decade of auto-enrolment.

Our response recommends three targeted measures, that would ensure those groups that are most at risk of being 'underpensioned' as we have called them – women, ethnic minorities, people with disabilities, carers, multiple jobholders and the self-employed – are not forgotten. We believe the Government should:

1. Remove the Qualifying Earnings threshold so that pension contributions begin from the first pound of earnings;
2. Lower the age criteria from 22 to 18; and
3. Remove the £10,000 earnings threshold.

We were pleased that the Government recommended the first two of these in the 2017 Auto-enrolment Review, and we would now like to see the Government legislate for these changes so that they can be enacted by 2025. We also believe that the third of these is critical to bring more potential savers into auto enrolment, and as we mark the policy's tenth year this year, we hope to see Government address this.

We are delighted to be able to submit a response to the Committee's inquiry and would be willing to take part in an oral evidence session to discuss these issues further if that would be of interest to the Committee.

Answers to specific questions

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

The state pension alone is unlikely to provide enough for the standard of living most people expect in retirement, which is why auto-enrolment has been so important in allowing the population to meet their retirement expectations. Auto-enrolment was created with the intention of overcoming the UK's culture of under-saving by overcoming consumer inertia and changing the way millions of individuals save. This has been a real public success story to date, with over ten million people now enrolled, many of whom would not otherwise have had the opportunity to save.

However, through no fault of their own, there are still millions of people in the UK who are currently ineligible for auto-enrolment. As we mark the ten-year anniversary of auto-enrolment this year, we want to ensure that more people can be brought into workplace pension savings, to help to reduce pension inequality and ensure that all groups in society are given the opportunity to save for adequate pensions.

Our research shows that over six million people miss out on saving through auto-enrolment due to ineligibility.[1] Auto-enrolment was designed for traditional patterns of work and is not suited to help employees who take significant career breaks, work in multiple or part-time roles or frequently move between jobs. This disproportionately affects those we have identified as underpensioned through our research with the Pensions Policy Institute.[2]

The underpensioned consist of certain sections of the population – 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. These groups are reaching retirement age with a pension wealth of approximately 15% of the UK average, leaving them with an over-reliance on income from the state pension. We do not believe that this is sustainable.

Additionally, these groups have been the most financially affected by the pandemic, as they are more likely to work in the industries that have been most impacted by the public health restrictions, such as retail, hospitality and tourism, or are in low-paid, part-time, or irregular employment. This means that they are more likely to have been affected by labour disruptions including furlough and redundancies. While the Coronavirus Job Retention Scheme protected jobs and pension contributions for those who were furloughed, they were only guaranteed to receive 80% of their usual pay up to a maximum of £2,500. This had a huge impact on the pension savings of furloughed employees because they received correspondingly smaller pension contributions. Furthermore, while the Government's furlough scheme gave protection against the severest effects of unemployment, some underpensioned groups were disproportionately affected. Those who became unemployed during the crisis did not benefit from protected pension contributions like those on furlough and so are much more likely to experience longer term damage to the value of their pension savings.

As being underpensioned is closely correlated with inequalities during working life, the disproportionately negative impact that the pandemic has had on these groups' employment, income and financial resilience is likely to further increase their risk of experiencing poorer retirement outcomes.

[1] NOW: Pensions - The pandemic and pensions inequality (2021)
[2] NOW: Pensions – The underpensioned report 2020

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

We welcomed the Government's recommendations in the 2017 Automatic Enrolment review, in particular the decision to remove the Qualifying Earnings threshold so that pension contributions begin from the first pound of earnings, and to lower the age criteria from 22 to 18. We believe that these two policies would play a significant role in helping to close the pension savings gaps we have identified, as outlined in our answer to question one.

Firstly, the minimum total contributions under auto-enrolment have been set by the Government at 8%. The employee pays 5% of this and the employer must pay the remaining 3%. Pension contributions are currently only taken after the qualifying earnings sum of £5,240 has been deducted. An employee earning just over the £10,000 earnings threshold will therefore only pay their 5% contribution on the remaining £3,860. We strongly believe that this has a disproportionate effect on part-timers and low-earners. The NOW: Pensions Qualifying Earnings infographic, included as an appendix, brings these statistics to life.

Our research shows that taking pension contributions from the first £1 of salary would increase women's pension wealth by an average of 52%, but for some groups this could be as much as 140%. Among our other underpensioned groups, it would increase the average pension wealth of: ethnic minorities by 31%; people with disabilities by 36%; carers' by 38%; and the self-employed and multiple job holders by 175%.[3] We therefore strongly believe that this barrier should be removed so that contributions are deducted from an employees' full salary.

Secondly, lowering the age criteria from 22 to 18 would be more consistent with modern working lives and will allow people to start saving for their pension as soon as they start work. Currently, three quarters of those aged 22 or over are auto-enrolled into pension schemes, but under the age of 22 it is only 20% of people in work. Onward's recent analysis shows that younger workers would save an extra £20,267 upon retirement, on average, from being enrolled at 18 rather than age 22.[4]

We welcomed the Government's previous commitment to introduce these two changes to auto-enrolment in the mid-2020s. It is now five years since these recommendations were made, so we urge the Government to table the necessary legislation and introduce these changes as soon as possible, to ensure that a greater proportion of society is saving adequately for retirement and to enable the pension savings of underpensioned groups that may have been negatively affected by the pandemic to recover at a faster rate.

We are also disappointed that the earnings trigger for auto-enrolment remains at £10,000. This means that employees are only enrolled in their workplace pension if they earn more than £10,000

[3] NOW: Pensions - The pandemic and pensions inequality (2021)
[4] Onward – Levelling up pensions (2022)

per annum in a single role, therefore excluding lower earners and those with multiple part-time jobs, who must reach a threshold salary of £10,000 per annum separately in each job to get auto-enrolled.

Removal of the £10,000 auto-enrolment trigger would allow more people to save into a workplace pension. Our research shows that this would amount to: 2.2 million more women; 400,000 more ethnic minorities; 660,000 more people with disabilities; 100,000 more carers, 106,000 more self-employed and multiple job holders; and 600,000 more men all saving through auto-enrolment.[5]

If introduced alongside taking pension contributions from the first £1 of salary, our research shows that a further 2.8 million people would begin saving through auto-enrolment, increasing pension wealth by an average of 52%. We therefore believe that it is essential that this trigger is removed alongside the changes above.

Whilst we believe that the above changes should be the priority, the Government should give thought to the timing of another review of auto-enrolment now that the policy is entering its second decade. There are still additional questions that need to be considered to ensure that the policy continues to be successful. For example, it is broadly accepted that the contribution rate of 8% of earnings is not adequate. The question of the contribution rate alongside other issues such as the Upper Qualifying Band should also be given serious thought and, while not an immediate priority for the remainder of this decade, the Government should start preparing for this now in order to be well positioned to make these changes in the 2030s.

3. **What advice and guidance do people need when saving for retirement?**

NOW: Pensions strongly believes more needs to be done in order for savers to gain a better understanding of their financial situation in retirement. Financial advice has always formed part of the answer, and will continue to in the future, however NOW: Pensions strongly supports the role impartial pension guidance can play in a customer's saving journey.

The Government's existing service, Pension Wise, regularly receives high marks from savers who interact with it – 94% of all appointment customers were very or fairly satisfied according to the most recent user evaluation[6] – and it is NOW: Pensions' belief that more should be done to encourage its uptake before savers can access their pension pots.

However, NOW: Pensions has reservations about the Government's 'Stronger Nudge' proposals, aimed at incentivising savers to access Pension Wise at the age of 55. We do not believe that the onus should be placed on the pension schemes themselves, to book customers into a Pension Wise appointment. Most of our members have small pots – between £2,000 and £3,000 – which are clearly not enough for a retirement income, making a Pension Wise appointment less of a requirement. In addition, many of our members transfer the pots they have with NOW: Pensions into another pot held with a different provider ahead of retiring, meaning that the system as currently designed would have a master trust such as NOW: Pensions booking savers into an

[5] NOW: Pensions - The pandemic and pensions inequality (2021)
[6] Money and Pensions Service – Pension Wise service evaluation (2020)

appointment for a pot that will soon be subsumed into another one. Until these issues are ironed out, we do not believe it is the duty of smaller master trusts such as ours to book customers into a Pension Wise appointment.

To improve people's financial understanding, NOW: Pensions believes that more should be done at an earlier age to help the savers of the future understand why it is important to save for retirement.

NOW: Pensions, for example, is a proud partner of Debate Mate, the mentoring organisation which runs after-school debate programmes across the UK, to help build communication skills, self-confidence and critical thinking in students. As part of the 2021 Pension Awareness Week campaign, NOW: Pensions have surveyed[7] over 2,000 students and teachers to review financial literacy in the UK and we found that 88% of respondents want to learn more about money and saving at school, while 67% of 12-25-year-olds said they haven't been taught enough about pensions and savings at school with a further 33% saying they had never had a conversation at home with parents about the matter.

We believe the Government should introduce financial education into the school curriculum as a matter of urgency, in order to teach our young people the value of savings. This is not simply NOW: Pensions' position – as our findings clearly show, it is the consensus opinion of students and teachers alike.

4. **Could retirement income targets help savers plan for retirement?**

NOW: Pensions would support making retirement income targets a more common part of the customer's saving journey throughout their working life.

The pensions industry has rallied behind the Pensions and Lifetime Savings Association's Retirement Living Standards[8] as a way of helping savers plan for retirement. By way of background, the Retirement Living Standards, based on independent research by Loughborough University, have been developed to help us to picture what kind of lifestyle savers could have in retirement.

NOW: Pensions supports this as a benchmark going forward, and we have included it in our own research as a way of calculating what is and isn't enough for retirement. NOW: Pensions actively signposts to the PLSA's Retirement Living Standards and we believe that their broad definition of 'Minimum', 'Moderate', and 'Comfortable' should be more widely used when discussing retirement options.

We believe the pension dashboards have a strong role to play in this regard. NOW: Pensions is fully supportive of the idea as it would help savers visualise and understand their retirement assets more clearly. We have been involved in their development and look forward to their roll-out next year.

[7] NOW: Pensions – Research reveals that almost 9 in 10 school students want to learn more about money and savings at school (2021)
[8] Pensions and Lifetime Savings Association – Retirement Living Standards

Once the pension dashboards are rolled out in 2023, the PLSA's definitions mentioned above should become targets for savers to aim at during the working life, as they would help crystallise retirement outcomes for savers throughout their working lives, not merely at the point of retirement. Given the industry's broad support for these targets, such a move should be relatively easy to achieve.

5. **Apart from increasing contributions, how can the Government improve outcomes for savers?**

As mentioned in our answer to Question Two, NOW: Pensions strongly believes that removal of the £10,000 auto-enrolment trigger alongside the removal of the qualifying earnings threshold so that pension contributions begin from the first pound of earnings will play a significant role in helping to close the pension savings gaps. Our research shows that these two policies could get a further 2.8 million people saving through auto-enrolment, increasing pension wealth by an average of 52%.[9] We also strongly support the Government's proposal to lower the age threshold for auto-enrolment from 22 to 18. The Government must now prioritise legislating for these reforms.

In addition to this, we believe that solving the small pots problem is crucial to improving outcomes for savers. The number of small deferred pots in the pension system, which tend to result from savers moving jobs and losing track of their existing pension savings, has been increasing since the introduction of auto-enrolment. Deferred small pots in the auto-enrolment workplace pensions market create a number of problems for savers and schemes. Costs and charges erode balances of small inactive pots over time, while having multiple pots also introduces complexity for savers and increases the possibility of them losing track of their savings.

Data from FCA's Retirement Income Market Study[10] reveals that small pension pots are predominantly cashed in at retirement, whereas pots of over £30,000 are predominantly used for retirement income. It follows therefore that if small pots are amalgamated with larger pots then they will contribute to the saver's lifelong income arranged at retirement, but if they are left un-addressed then they will simply be cashed in and potentially quickly spent.

There are currently over eight million deferred pension pots and eight million active pots in master trust schemes with many more in other DC schemes. It is estimated that, in master trusts alone, this could increase to around 27 million deferred pension pots and nine million active pots by 2035 without intervention.[11]

We therefore welcomed the Small Pension Pots Working Group report, published by DWP in December 2020, and the creation of the industry co-ordination group, established to take forward the recommendations made in that report.

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[9] NOW: Pensions - The pandemic and pensions inequality (2021)
[10] FCA - Retirement Income Market Data, December 2021 update
[11] Pensions Policy Institute – Policy options for tackling the growing number of deferred members with small pots (2020)

NOW: Pensions is also responding to the joint FCA/TPR investigation into value for money. It is self-evident that improving value for money is a way to improve member outcomes without increasing contributions. At NOW: Pensions our investment offering is a Diversified Growth Fund which offers a combination of real growth, climate friendly assets and low volatility that we believe is well suited to our members. And we offer this for a fund management charge of just 0.3%pa, one of the lowest fund management charges in the industry.

Many of our members could improve their outcomes by transferring pensions left at previous employers, with higher fund management charges, to NOW: Pensions. Regrettably it is relatively few members that do this, but we are considering what we can do to further encourage this.

We are also concerned about the increasing trend in the pensions industry for savers to transfer money out of occupational DC schemes (which like us enjoy low, institutional, fund charges) and into highly advertised personal pensions (which suffer from higher, retail, fund charges). It is not unusual for members of NOW: Pensions and other similar large AE schemes to double their fund management charge through transferring. As the transfers are stimulated by direct to consumer adverts rather than financial advice there seems to be little protection for members suffering these higher fund management charges.

Lastly, we were pleased to see the Government take action to remedy the tax position for low earners impacted by the net pay anomaly at the 2020 Autumn Budget. Our research shows that the lowest income earners miss out on up to £111 million of Government tax relief every year. The issue affects workers who are auto-enrolled into a net pay pension scheme because they earn more than £10,000 per year but are under the income tax threshold, currently £12,500. It affects more than a million people's take-home pay, reducing it by up to £64 a year.

At NOW: Pensions, we have campaigned for the net pay anomaly to be removed and have mitigated this for our members through our innovative Tax Top Up scheme. We are therefore thrilled that the Government is going to take action to broadly equalise outcomes for all lower earning pension savers and that the problem is going to resolved for our members from 2024.

We do have some concerns about the delay to implementation. We appreciate the complex nature of the IT changes required, but believe that once HMRC have got the system up and running, reconciliations could be run for tax years before 2024/25. Backdating – at least back to the current tax year 2021/22 – could help boost take up of initial claims for the payments, as greater amounts would be on offer, thus presenting a greater incentive to clam than for smaller amounts.

We also believe that how HMRC communicate with affected individuals could be as important as the law itself, and we have offered our full support to HMT as they work on the remaining points of detail and draft legislation. We understand from HMRC that eligible low earners will have to apply once to claim the rebate, but that having applied they will be automatically assessed in subsequent years. If that first year was to include three tax years, as suggested in the paragraph above, then we believe many more people would apply.

6. **Can pension providers change the design of pension products to improve outcomes for savers?**

Our trustees regularly review the design features of the NOW: Pensions Master Trust and remain satisfied that it provides good outcomes for our target audience.

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

Research conducted by NOW: Pensions in partnership with the Pensions Policy Institute has found that 85% of the self-employed do not save into a private pension and this figure has grown from 73% in 2008/09.[12] The remaining 15% of the self-employed who do manage to save into a pension have 77% of the pension wealth of the average population.

The reason the self-employed group is excluded from accessing the benefits of auto-enrolment is because they do not have an employer who is legally obligated to automatically enrol them and provide contributions. Our report identifies that after being self-employed for 20 years, pension savings really begin to suffer, with retirement incomes dropping to 53% of the UK average. This drops further for those who have been self-employed for longer.

In addition, our research has found that the self-employed have lower incomes than traditional, full-time, employees. Average annual full-time earnings for the self-employed is £19,560, almost a third (29%) less than the baseline population (£27,380). However, this does increase the longer someone is self-employed.

The self-employed are, clearly, underpensioned, as our report found. We believe there to be two ways of solving this problem, which the Government should take forward. Firstly, more needs to be done to encourage pot consolidation. As mentioned above, if savers can see all their future retirement income in one place they will have a clearer idea of how much they need to save, and whether they need to put away more ahead of retirement. The pension dashboard programme, once it has fully been rolled out, will be crucial in this regard.

As with other groups, the two main policy levers available to Government include removing the £10,000 trigger which our findings[13] say would enable 106,000 additional self-employed and multiple job holders to start saving through auto-enrolment; while taking pension contributions from the first £1 of salary would increase these groups' pension wealth by 175%.

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[12] NOW: Pensions – People who work multiple part-time jobs are likely to have pension wealth just 6% of the average man's (2020)

[13] NOW: Pensions - The pandemic and pensions inequality (2021)

Other options include testing new forms of flexible saving, such as the ones recently launched by Nest Insight with Penfold and Moneyhub. These new pilots are supported by the Department for Work and Pensions and could form part of the solution going forward.

8. **Are different or additional measures required to help gig economy workers save for retirement.**

NOW: Pensions is proud to be working with Uber and Adecco to create the first-ever pension scheme for flexible workers in the Private Hire Vehicle industry. The launch of the new pension scheme follows the decision in March 2021 to treat all 70,000 UK drivers as workers, with the introduction of a minimum earnings guarantee and holiday pay, and will extend company-supported pension saving to a large new cohort of workers.

Drivers will be auto-enrolled in a pension scheme provided by NOW: Pensions, and managed by leading workplace solutions provider Adecco. Through the new pension scheme, Uber will contribute 3% of a driver's earnings into a pension pot, while drivers can choose to contribute a minimum of 5% of qualifying earnings. Eligible drivers will be able to opt-out of the pension scheme, if they so choose.

The pension scheme will only cover Uber drivers, despite the fact that many also work with operators such as Bolt, Addison Lee and Ola. NOW: Pensions and Uber has therefore extended an invitation to work with all operators to create a cross-industry pension scheme. This could be designed to allow drivers to save for their futures whilst working across multiple apps, so they can benefit no matter who they choose to drive with.

We believe that this landmark launch paves the way for improving retirement outcomes for gig economy workers. As part of our mission to create a fair pension system for all, we want to help other industries provide their flexible workers with access to pensions. We are very happy to work with Government, Parliament and industry to move towards delivering pensions benefits to all workers in the gig economy.

9. **Are there measures which the Government should consider to close the gender pension gap?**

NOW: Pensions have long been campaigning on initiatives to help close the gender pensions gap.

Women in retirement, on average have 55% lower pension income than men. The average annual private pension income[14] for men aged 65 and over is £8,620 – for women it's £3,920. This represents a gap of £4,700 or a 55% decrease. Our research shows that this is the result of a number of factors.

[14] Not including state pension.

Firstly, women are disproportionately likely to work in lower paid, part-time roles. More than one third of women (36%) currently work part-time, and almost 1 in 5 employed women earn below the £10,000 threshold for auto-enrolment, amounting to a staggering 2.2 million women unable to save through auto-enrolment.

For those working multiple part-time jobs, the current auto-enrolment rules are doubly unfair to this group. They have to reach the threshold salary of £10,000pa separately in each job to get auto-enrolled, and then each job deducts the qualifying earnings lower band of £5,824 from their annual earnings before paying pension contributions. This means that someone earning £10,000 from three jobs would only receive 3.4% of their total £30,000 earnings.

Secondly, women are more likely to take a career break while caring for children or further down the line to care for elderly relatives. This often occurs during their 20s and 30s, which is unfortunately also the age when pension saving is most effective for building long-term wealth due to the effects of compounding. Once women start returning to work, most commonly in their 40s, they can once again start contributing towards their pension. But their total pension wealth will remain far below that enjoyed by men, who only rarely take a paternity-related career break.

Additionally, women have had to care more and work less during the pandemic. Almost all women had taken on more caring responsibilities since the start of the pandemic in March 2020, according to UK charity Pregnant Then Screwed. A quarter of working mothers used annual leave to manage their caring duties, 18% reduced their working hours, and 7% took unpaid leave.[15]

Thirdly, inequalities experienced during working age life are also associated with lower incomes in later life. The gender pay gap means that women working full-time still earn almost £6,000 less than men – with an average annual income of £24,150, compared with £29,980 for men.

Therefore, it is clear that while auto-enrolment into workplace pensions has been a success, it has yet to compensate for the gender pensions gap. In order to address this, we strongly believe that Government must remove the £10,000 auto-enrolment trigger alongside the removal of the qualifying earnings threshold so that pension contributions begin from the first pound of earnings.

Removing the £10,000 trigger would get 2.2 million more women saving through auto-enrolment and taking pension contributions from the first £1 of salary would increase women's pension wealth by an average of 52%, but for some groups this could be as much as 140%.

Secondly, it is clear that flexible working helps women to earn and save more. During the pandemic, employers were forced to test the theory that working from home and flexible working are more compatible with most traditionally office-based jobs, so more women are being given the option of working full-time. Since the start of the pandemic, the proportion of women working full-time as increased to 64% - the highest level on record.[16]

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[15] Trades Union Congress - 'Working mums: Paying the price' (2021)
[16] NOW: Pensions - Gender Pensions Gap (2021)

Between March 2020 and March 2021 women's average incomes increased 12.5% to £21,600. In contrast, men's average incomes only increased by 4.9%, although this was to a far higher figure of £30,000.[17] While it remains to be seen whether working practices have changed significantly for the long term, flexible working patterns would almost certainly be beneficial for women, allowing them to stay in the workplace, progress their careers and earn higher salaries.

Thirdly, we believe that enhanced parental leave is an important step to help close the gender pensions gap. Research by the PPI has shown that wider take-up of shared parental leave would reduce the impact of maternity leave on the gender pensions gap by 60%. Each year that a mother is away from the workforce on maternity leave, their pension wealth decreases by an average of £1,823. If they were to reduce this time away, by sharing parental leave, this reduces the amount that their pension wealth decreases to £755.

Despite this, research by NOW: Pensions and the Diversity Project for International Men's Day 2021 put a spotlight on the extremely low take-up of paternity leave. In the survey, only 5% of working fathers took more than 26 weeks off and almost half of respondents (43%) expressed concerns about catching up on their workload when they returned from extended leave.[18]

Following the Covid-19 pandemic, we have seen a greater number of fathers take on parental and childcare responsibility in the home through the introduction of flexible working during lockdown and restrictions. The share of households in which the father is the main childcare provider has risen by nearly eight times, from 2.7% in 2016-17 to about 18% in April and May 2020. We hope to see this trend continue, and we call on the financial services industry to support all working parents with parental leave policies that work, and don't hinder their careers.

Lastly, the cost of childcare is also an important factor. Our research found that 73% of employed adults said more women would work full-time if childcare was more affordable. This situation has also worsened during the pandemic, with 34% of working parents having to pay more for their childcare during this time.[19]

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[17] Pension Policy Institute analysis of the Office for National Statistics' Labour Force Survey 2021

[18] NOW: Pensions - Wider take-up of shared parental leave would reduce the impact of maternity leave on the gender pensions gap by 60% (2021)

[19] NOW: Pensions - The pandemic and pensions inequality (2021)

About NOW: Pensions

NOW: Pensions is leading UK workplace pension provider. We look after the pension savings of tens of thousands of employers and millions of members from a wide range of industry sectors. We have been owned by Cardano Group since 2019.

We have a clear mission - to help everyone save for a more financially secure future. This means achieving the best financial outcomes for our own members, while fighting for a fair pension system to enable all pension savers to enjoy the retirement they deserve. We do this by highlighting pension inequalities and campaigning for change.

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