PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Sixth Delegated Legislation Committee

DRAFT AUTOMATIC ENROLMENT (EARNINGS TRIGGER AND QUALIFYING EARNINGS BAND) ORDER 2016

Wednesday 16 March 2016

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STRICT ADHERENCE TO THIS ARRANGEMENT WILL GREATLY FACILITATE THE PROMPT PUBLICATION OF THE BOUND VOLUMES OF PROCEEDINGS IN GENERAL COMMITTEES

The Committee consisted of the following Members:

Chair: ANDREW PERCY

† Blackford, Ian *(Ross, Skye and Lochaber)* (SNP)
† Burns, Sir Simon *(Chelmsford)* (Con)
† Cadbury, Ruth *(Brentford and Isleworth)* (Lab)
† Double, Steve *(St Austell and Newquay)* (Con)
Dowd, Jim *(Lewisham West and Penge)* (Lab)
† Fox, Dr Liam *(North Somerset)* (Con)
† Frazer, Lucy *(South East Cambridgeshire)* (Con)
† Greenwood, Margaret *(Wirral West)* (Lab)
† Jackson, Mr Stewart *(Peterborough)* (Con)
† Lopresti, Jack *(Filton and Bradley Stoke)* (Con)
† Lynch, Holly *(Halifax)* (Lab)
† McLaughlin, Anne *(Glasgow North East)* (SNP)
Mactaggart, Fiona *(Slough)* (Lab)
† Mills, Nigel *(Amber Valley)* (Con)
† Opperman, Guy *(Hexham)* (Con)
† Rayner, Angela *(Ashton-under-Lyne)* (Lab)
† Rutley, David *(Macclesfield)* (Con)
† Vara, Mr Shailesh *(Parliamentary Under-Secretary of State for Work and Pensions)*

Glenn McKee, *Committee Clerk*

† attended the Committee

Sixth Delegated Legislation Committee

Wednesday 16 March 2016

[ANDREW PERCY *in the Chair*]

Draft Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2016

8.55 am

The Parliamentary Under-Secretary of State for Work and Pensions (Mr Shailesh Vara): I beg to move,

That the Committee has considered the draft Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2016.

It is a pleasure to serve under your chairmanship, Mr Percy. I trust that the order will not be contentious, and I hope the Committee will not be detained for long. The order, which was laid before the House on 8 February 2016, reflects the conclusions of this year's annual review of the automatic enrolment earnings thresholds, which was required by the Pensions Act 2008. The review considered both the automatic enrolment earnings trigger, which determines the point when someone becomes eligible to be automatically enrolled into a workplace pension, and the qualifying earnings band, which determines those earnings of which the enrolled employee and their employer have to pay a proportion into a workplace pension.

The order sets a new upper limit for the qualifying earnings band and is effective from 6 April 2016. The earnings trigger and the lower earnings limit are not changed. The lower earnings limit remains that set in the Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2015, and the earnings trigger remains that set in the Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2014.

Automatic enrolment is in its fifth year and has been very successful in reversing the decade-long downward trend in pension saving. Since its launch, more than 100,000 employers have complied with their automatic enrolment duties, and more than 6 million eligible employees have been successfully enrolled in a workplace pension. Last year saw the successful staging of the first tranche of small and micro employers and it is projected that by March 2017, more than 700,000 small or micro employers will have enrolled their employees into a workplace pension.

It is therefore more important than ever that, when deciding the thresholds for joining and contributing to a workplace pension, we strike the correct balance between minimising the administrative burden on employers and ensuring that as many people as possible save in a workplace pension.

The qualifying earnings band sets the earnings levels within which an automatically enrolled employee and their employer have to pay a proportion of the employee's income into a workplace pension. Past reviews have generally linked that to the national insurance bands. As the Minister for Pensions signalled in her written statement on 15 December 2015, the lower limit for the qualifying earnings band will remain unchanged and aligned with the national insurance lower earnings limit of £5,824. However, the order will align the upper limit of the qualifying earnings band with the new national insurance upper earnings limit of £43,000.

Maintaining the alignment with the national insurance thresholds at the points where contributions start for low earners and are capped for higher earners keeps the overall changes to existing payroll systems to a minimum. The decision, therefore, both ensures simplicity and minimises the administrative burden of compliance for employers in 2016-17.

The order does not change the earnings trigger, which remains at the value set in the 2014 order. That trigger is the level of earnings at which individuals are eligible to be automatically enrolled into a workplace pension scheme by their employer. We have decided to maintain the automatic enrolment earnings trigger for 2016-17, so it will remain at £10,000.

Owing to anticipated wage growth and the maintenance of the existing trigger, we expect an additional 130,000 individuals to meet the earnings criteria and be brought into the automatic enrolment population. Individuals earning below the £10,000 earnings trigger, but above the lower earnings threshold will still have the option to opt in to a workplace pension and benefit from employer contributions, should they so wish.

The decision to maintain the earnings trigger at £10,000 will increase the number of low earners who meet the earnings criteria and are therefore automatically enrolled into a workplace pension. It will increase the total number of people saving into a pension and total savings. The decision to maintain the alignment of the lower and upper earnings qualifying bands with the national insurance contribution thresholds maintains simplicity and ensures that there are no new potential administrative burdens on employers at a crucial stage of the programme's wider roll-out.

The order ensures that automatic enrolment will continue to provide greater access and opportunity for individuals to save into a workplace pension, while making sure that, once enrolled, they build up meaningful pension savings. I commend the order to the Committee.

9 am

Angela Rayner (Ashton-under-Lyne) (Lab): It is a pleasure to serve under your chairmanship, Mr Percy, and to face the Minister again. The name of the order just rolls off the tongue, doesn't it?

The order reflects the view shared by the Government and the Opposition that the overriding purpose of auto-enrolment should be to ensure that people have sufficient retirement income savings. I do not intend to divide the Committee, but I will make some short but very important points and pose some questions that I hope the Minister will answer today.

Different groups, such as women, ethnic minorities and disabled people, experience differences in pension savings. In the debates on the orders in years when the earnings trigger was increased, concerns were expressed about the number of low-paid workers—disproportionately women—who were, in effect, excluded from the scope of auto-enrolment as a result. Having a relatively low income in retirement can be the result of lifelong disadvantage. When such disadvantage extends beyond a person's working life, it can indicate particular vulnerabilities and the need for support and social policy intervention.

Automatic enrolment, which is intended to increase participation among those who are most likely to be under-pensioned and particularly the low-paid, should go some way towards increasing the level of private pension saving among those in under-pensioned groups. However, the way in which the auto-enrolment eligibility criteria are structured means that employed people from under-pensioned groups are less likely to be eligible for it. It would therefore be helpful to know from the Minister what his Department is doing to promote the voluntary opt-in arrangements for those who do not meet the minimum auto-enrolment thresholds, but who could benefit from saving, such as the self-employed or people with multiple lower-paid jobs.

According to the Pensions Policy Institute, removing the automatic enrolment qualifying earnings band entirely would have a greater positive impact on retirement income than increasing the minimum contribution level to 10% of qualifying earnings. What is the Minister's view of that proposal?

It is important not only to ensure that people put something into their pots, but that they understand the choices they have to make. Those who are eligible for tax relief should not be made to search for the qualifying criteria; those should be clear to them before they are enrolled. That applies particularly to those on low incomes. It is not enough just to expect the 180,000 workers earning between £10,000 and £11,000 a year, and the small and micro employers that the Minister mentioned, to search the internet to check whether they have auto-enrolled into a workplace pension that uses a net pay tax relief arrangement. Such workers will not benefit from tax relief on their contributions. What will the Government do to inform those employers and workers to ensure that they get the best deal and the most value from their investments?

As we have a long day ahead of us, I shall make one final, overarching point. In many Committees like this, I have raised the issue of protection for savers. That has to be a crucial part of the auto-enrolment process. I remain concerned at the lack of action by the Government regarding protection for savers, particularly in relation to the master trusts that many small and micro employers choose as a vehicle for auto-enrolment.

As I noted last week, we have heard three different positions from three different Ministers. The Economic Secretary to the Treasury told us during a recent Public Bill Committee that legislation was imminent. The Minister for Pensions then told the Select Committee on Work and Pensions last week that legislation was urgently needed, but that she could not get parliamentary time from the Government. Finally, the Under-Secretary before us said at our last exchange in a Delegated Legislation Committee that the Government were still working out whether they should do anything and, if so, what. Frankly, neither the disagreements nor the dithering will inspire much confidence among the ordinary savers whose retirement security is potentially in danger, so will the Minister finally give us a definitive answer on the Government's plans today?

9.5 am

Nigel Mills (Amber Valley) (Con): It is a pleasure to serve under your chairmanship, Mr Percy.

I wonder whether the Minister would care to answer a few questions about how we should take this policy forward in the light of the Budget announcement, which appears to have been trailed, that the Government will introduce a help to save scheme. Effectively, the scheme will give those who are on a pretty low income a 50% bonus if they save a certain amount each month over a certain period. The existing automatic enrolment schemes give people who save into them a 25% taxpayer contribution. People who are pretty short of money and who want to save for their future would perhaps be better off saving with the new help to save scheme, because they would get a 50% taxpayer bonus and would perhaps have the money available to them if they needed it before they retired. Automatic enrolment effectively compels them to join a pension scheme, where they may suffer the downside and the costs of having their money locked away for a long period.

I am a little intrigued, so I wonder whether the Minister would care to say a few words about the direction of savings policy, because it seems a little unreasonable effectively to force people into a savings vehicle that now looks to be a little less attractive than going into a help to save scheme that has a bigger bonus and that would give them more ready access to and control of their money.

I suspect that the answer will be, "Until the Chancellor of the Exchequer announces it, we cannot speculate." The other answer might be that the pension scheme at least has an employer contribution, but that is effectively a cost to the employer that does not go into the wage pot. I wonder whether this is a sign that the Chancellor wishes he had gone for a tax-exempt pension route and that he is trying to recreate it for the very lowest level of savers, perhaps in a more flexible way.

9.7 am

Ian Blackford (Ross, Skye and Lochaber) (SNP): It is a considerable pleasure to serve under your chairmanship for the first time, Mr Percy. I do not wish to detain the Committee for any longer than is necessary on what will be a busy day. The Scottish National party has an established position of supporting auto-enrolment as a principle, as the Minister knows, and I am happy not to divide the Committee this morning on the measure.

We have some concerns, however, about ensuring that auto-enrolment works to its fullest extent. There will be reforms in the years to come, and we are particularly concerned about part-time women workers who are under the threshold. It is important that we introduce the concept of saving and make sure that people can have dignity in retirement, and auto-enrolment is a route towards doing that.

The well-made comments that we have just heard bring home that there is far too much tinkering and changing, and a lack of certainty. Auto-enrolment should be the preferred route to go down. We can see from today's Budget that there is a missed opportunity, in that we are not truly reforming pension tax relief to ensure that lower-paid workers get a fair bite of the cake.

[Ian Blackford]

However, I certainly commend the order to the Committee, and I look forward to seeing it strengthened in the period to come. Let us make sure that we have a savings culture that offers people security and dignity in their retirement.

9.8 am

Mr Vara: I am grateful for the various comments that have been made this morning and the general support for the order from the Opposition and hon. Members.

I was asked about the impact of freezing the trigger, particularly on women and minorities. It is estimated that the decision to freeze the trigger will make an additional 130,000 individuals eligible for automatic enrolment into a workplace pension in the course of next year, of whom 71%—or 91,000—are expected to be women. I think that that is good news.

As for the self-employed, if they wish to make retirement plans and save into a personal pension scheme, they will, of course, receive tax relief from the Government. However, I trust that the Committee will appreciate that the existing framework for auto-enrolment is not suitable for the self-employed because, by definition, the employer and the worker are the same person. It does not make sense to require a person to take action to enrol themselves and then have to opt out if they do not want to be in the pension scheme.

On the opt-in rate, the "Employers' Pension Provision survey 2015" suggests that 5% of ineligible workers whose employers have staged choose to opt in to saving in a workplace pension, to which their employer contributes too.

The point about multiple part-time jobs is important, as are the other issues that have been raised. When an individual does not earn more than £10,000 in a single job, but earns more than the lower limit of the automatic enrolment qualifying earnings band of £5,824 in that job, they can choose to opt in to a scheme with a mandatory contribution from their employer for earnings over that level.

More than 90% of members who have been automatically enrolled into master trusts have been enrolled into schemes that have signed up to the master trust assurance framework. That provides additional protections, where appropriate. The immediate-term risks are lower in such schemes than elsewhere.

We urge employers to think carefully about which pension scheme is suitable for them and their staff. The Pensions Regulator has recently updated its guidance to employers and advisers to highlight which schemes operate a net pay arrangement versus a relief-at-source method of tax relief.

I commend my hon. Friend the Member for Amber Valley for his efforts to tempt me to say what will be in the Budget. My answer is the one he perhaps knew deep down that I would give: it would be premature for me to do so some three hours before the Chancellor stands up and says what he wants to say.

It has been a pleasure to serve under your chairmanship, Mr Percy, and I wish you well in your new post. This is the first time I have served under your chairmanship and I look forward to doing so again.

Question put and agreed to.

9.11 am

Committee rose.