House of Commons

Work and Pensions Committee

Automatic enrolment

Eleventh Report of Session 2015–16

HC 579

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Work and Pensions Committee

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Summary

Pensions automatic enrolment (AE) has so far been a tremendous success. An additional 6.1 million people are enrolled in a workplace pension and saving for their retirement, with many more to follow. Employer compliance rates are high and employee opt-out rates are low. It is essential that this success is not undermined.

Gaps in pension regulation have allowed potentially unstable master trusts onto the market. Should one of these trusts collapse, there is a very real danger that ordinary scheme members would lose their retirement savings. There is also a risk that wider faith in auto-enrolment will be undermined. The Pensions Minister told us that she wants a Pensions Bill for stronger regulation of master trusts. We support this.

The introduction of the Lifetime ISA, potentially seen as a competitor product, could jeopardise the success of AE. The Treasury and the Department for Work and Pensions appear to have different views over whether it is a pension product or not. Some young people may opt-out of AE in order to save in a LISA, leaving themselves worse off in retirement. Furthermore, the LISA is due to be introduced at a time when the majority of small businesses will still be to move on to AE and statutory contribution rates will be yet to rise. The Government should make it clear that the LISA is not a pension. It should also conduct urgent research on any effect of the LISA on AE and report on this before the 2016 Autumn Statement.

The period of moving 1.8 million small and micro-employers on to AE will be the most challenging phase of the programme. The DWP and The Pensions Regulator have taken positive steps to support these businesses, including a targeted communications campaign. This campaign should now focus on the financial consequences of non-compliance, emphasising that AE cannot be ignored. DWP should provide reassurance to small and micro-employers about where liability will fall if their chosen pension scheme performs badly or fails. It should also work with HMRC to expand Basic PAYE Tools to support small businesses in meeting their AE obligations. It must be as easy as possible for small businesses to participate without additional cost.

Once implementation is completed, approximately 9 million people will be newly saving, or saving more, in a pension due to AE. The 2017 review of AE would be an ideal opportunity for the Department to consider how to build on this success. The review should consider how to increase contributions beyond the statutory minimum of 8% and how to bring more low-paid and self-employed people into AE.

1 Introduction

1. Auto-enrolment (AE) requires employers to enrol UK employees that meet certain eligibility criteria onto a workplace pension scheme. Unless those employees opt out, they will accumulate a private pension through their contributions and those of their employer. The policy aims to result in greater private pension saving by a larger group of people. It is a central tenet of the Government's efforts to establish a sustainable pension system that encourages individuals to save towards the lifestyle they aspire to in retirement.[1]

2. The introduction of AE began in 2012 with the largest employers. Requirements to auto-enrol are gradually being extended to smaller employers, including those who would not consider themselves to be running a business, on a timetable due to run until 2018. We instigated this inquiry with the principal objective of establishing whether small businesses were being adequately supported in introducing AE. Our evidence pointed us to two additional significant concerns: the regulation of multi-employer occupational pension schemes known as master trusts, and impact of the proposed introduction of a new savings product, the Lifetime ISA.

3. To capture the small employer perspective we took oral evidence from individuals who employ a nanny or carer and held a private meeting with a panel of small business owners from our constituencies. We also visited the National Employment Savings Trust (NEST), the workplace pension scheme set up by government for AE to ensure every employer has access to a scheme. We are grateful to everyone who contributed to our inquiry, including Daniela Silcock, who provided specialist advice.

1 DWP (PAE0024)

2 A success story so far

Automatic enrolment

4. AE was a key recommendation of the Pensions Commission, commonly referred to as the Turner Commission, which reported in 2004 and 2005. The policy, which stops short of compulsion but makes most employees part of a pension scheme by default, is designed to address "severe under-saving" for retirement.[2] The policy is given effect by the Pensions Act 2008, which places a duty on employers to automatically enrol certain employees into a qualifying pension scheme, making contributions both for and on behalf of the employee.

5. Contributions are based on qualifying earnings. In 2016-17, these are earnings between a lower threshold of £5,824 per year and an upper threshold of £43,000. The contribution rates are gradually being increased. Currently, both employee and employer contribute 1% of qualifying earnings. This will increase to 3% employee, 2% employer in April 2018 and then 5% employee, 3% employer in April 2019.[3]

6. An employee who works in the UK under a contract of employment and is aged between 22 and state pension age must be automatically enrolled providing they earn at least a trigger level of earnings. In 2016-17, this earnings trigger is £10,000 per year. Unless the employee opts out, the employer must pay contributions. Employees aged between 16 and 74 earning at least £5,824 per year, the lower qualifying earnings threshold, may choose to opt in to the pension scheme and the employer must pay contributions. Employees earning less than that threshold have the right to join a pension scheme but their employer does not have to pay contributions.[4]

7. AE has been implemented in stages according to the number of people the business employs. The process for large and medium employers is complete. Requirements began to extend to small and micro-employers in June 2015 and are due to be complete by February 2018.[5] The Pensions Act 2008 gave the Pensions Regulator (TPR) a new statutory objective to maximise employer compliance with the employer duties and employment safeguards associated with AE.

Progress and success

8. By March 2016, 6.1 million people were enrolled in a workplace pension as a result of auto-enrolment, in addition to the 9.6 million people who were already part of a qualifying scheme at the date their employer was required to comply. 110,000 employers have declared compliance with AE requirements.[6] Opt-out rates have been lower than anticipated. Around 10% of eligible workers have opted out, compared to the DWP's

2 Pensions Commission, First Report, Pensions: Challenges and Choices, 2004

3 This schedule was announced in the 2015 Autumn Statement. The increases were previously due to occur in October 2017 and October 2018. The change aligns the increases with the tax year.

4 http://www.thepensionsregulator.gov.uk/automatic-enrolment-earnings-threshold.aspx

5 DWP (PAE0024). Small and micro-employers are those with fewer than 50 employees.

6 http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf

initial assumption of 28%, with young employees less likely than average to opt out.[7] Unsurprisingly, AE has been declared a success by pension providers, employers, trade unions and Government.[8]

9. We were cautioned, however, against complacency about this success continuing. The Department recognised that, in being extended to small and micro-employers, AE has "entered its most challenging phase".[9] NEST concurred, describing the period as the "acid test" of the policy.[10] We consider extension to smaller employers, along with other risks, in the coming chapters. As The People's Pension, a master trust, summarised, "so far, so good, but there are risks ahead".[11]

10. **Automatic enrolment (AE) has so far been a tremendous success. It has resulted in more than six million people being newly enrolled into a workplace pension scheme. Rates of opting-out have been lower than expected. AE is on schedule to have a transformative effect on private pension saving, but it is now at a crucial and risky stage of its development. It is imperative that it is not undermined by other government-sponsored forms of saving.**

7 DWP, (PAE0024)
8 Prospect (PAE0053), CBI (PAE0033)
9 DWP, (PAE0024)
10 NEST (PAE0025), CBI (PAE0033), (PAE0024), PLSA (PAE0006)
11 The People's Pension (PAE0032)

3 Protecting savers

Regulatory framework

11. Responsibility for the regulation of workplace pensions is divided between the Financial Conduct Authority (FCA) and TPR. The FCA regulates contract-based schemes, in which scheme members sign a contract with a pensions provider appointed by their employer to run the scheme. TPR regulates trust-based schemes, which are sponsored by the employer but managed by a board of trustees. Defined contribution (DC) schemes, such as those typically used for AE, can be either trust or contract-based. The FCA and TPR say they "have similar expectations for scheme quality and member outcomes".[12] Our predecessor Committee, however, expressed concern about "regulatory gaps" and recommended the creation of a single pensions regulator.[13]

12. Over the course of this inquiry, we heard concerns that the savings of some automatically enrolled employees may be at risk as a result of under-regulation of pension providers known as "master trusts". In this chapter we examine the proliferation of master trusts in the AE market and the potential risks to AE savings.

Master trusts

13. A master trust is an occupational pension scheme for multiple, unconnected employers. There is one legal trust and therefore one board of trustees. Each employer, however, has a separate division within the main trust and decisions on matters such as investment and service providers are made independently.[14] Master trusts are regulated by TPR.

14. The master trust model is a good fit with AE. They can provide the ongoing oversight of investments provided by a trustee board at lower operating costs than single employer schemes, through economies of scale from pooling administrative functions. TPR encouraged employers to consider large multi-employer schemes for AE because they were "better placed to meet the standards […] necessary for good outcomes for retirement savers" and expected master trusts to dominate the market.[15] The predictions proved correct: nearly half of employee enrolments into DC schemes between April 2014 and March 2015 were into master trusts. 94% of employers who chose a trust-based scheme opted for a master trust.[16]

Concerns about master trust regulation

15. There are around 72 registered master trusts that are currently open. Once a master trust is on the market, employers are free to choose it to comply with their AE duties, so

12 The Pensions Regulator and FCA, Guide to the regulation of workplace defined contribution pensions

13 House of Commons Work and Pensions Select Committee, Sixth Report of Session 2012-13, Improving governance and best practice in workplace pensions, HC 768-I and Fourth Report of Session 2014–15, Progress with automatic enrolment and pension reforms, HC 668

14 The Pensions Regulator and FCA, Guide to the regulation of workplace defined contribution pensions

15 The Pensions Regulator (PAE0002) and The Pensions Regulator, Automatic enrolment Commentary and analysis: April 2014 – March 2015, July 2015

16 The Pensions Regulator (PAE0002)

long as it meets the standards of a qualifying scheme.[17] We heard various concerns that TPR's regulatory powers with regards to master trusts are insufficiently robust. TPR said that it was concerned it was "not able to exercise stronger regulation on this group, given their importance, the number of employees—members they are serving".[18]

16. Concerns about master trust regulation begin when a master trust is set up. "Rigorous standards" and capital and solvency requirements enforced by the FCA act as barriers to entry for contract-based pension providers.[19] By contrast, Lesley Titcomb, Chief Executive of TPR, told us that she was not able to issue equivalent regulatory authorisation for trust-based schemes:

> we just learn about a master trust being set up through the Revenue telling us, so there are no checks at the gateway.[20]

17. Once in the market, we heard that trust-based schemes are "not subject to the high level of ongoing regulatory scrutiny and active monitoring given to contract-based schemes".[21] While the FCA can issue legally binding rules to support its regulatory functions, TPR relies on non-binding guidance. The Association of British Insurers (ABI) said this led to practical differences in the regulation of the two parts of the market, including "lower standards for the specificity of risk warnings and the provision of communications to members for trust-based schemes".[22] The TPR acknowledged that some of the smaller master trusts "may not be run by competent people".[23] Inadequate regulation increases the prospect of "substandard governance and investment strategies", which could make poor investment returns for scheme members.[24] A proliferation of poorly-governed master trusts would also limit their ability to become large in scale, undermining their ability to provide cost-effective retirement saving.

18. Joanne Segars, Chief Executive of the Pensions and Lifetime Savings Association (PLSA), warned that the financial burden of winding up a failed undercapitalised master trust may fall on individual member pension pots.[25] Baroness Altmann, Minister for Pensions, (the Minister) shared this concern:

> there is no protection for wind-up in master trusts, which is why I am so exercised about it.[26]

19. This, she said, could encourage providers to attempt risky trust-based models of provision with relative impunity.[27] A recent BBC article claimed that some master trusts

17 A qualifying scheme that meets three tiers of requirements: Automatic enrolment criteria, e.g. no requirement for the jobholder to complete an application form; qualifying criteria, e.g. must be tax registered; and minimum requirements, e.g. the employer must make contributions in respect of the jobholder.
18 Q149 (Lesley Titcomb)
19 Association of British Insurers (PAE0021)
20 Q149 (Lesley Titcomb)
21 Association of British Insurers (PAE0021)
22 Association of British Insurers (PAE0021)
23 BBC, Thousands told their pension savings could be at risk, February 2016
24 Association of British Insurers (PAE0021)
25 Q23: Recent pension policy developments (Joanne Segars)
26 Q175 (Baroness Altmann)
27 Q179 (Baroness Altmann)

were deliberately misleading clients and were in danger of collapsing.[28] Andrew Warwick-Thompson, an executive director at TPR, acknowledged that there was a risk of some of the schemes collapsing and members losing their savings.[29]

Improving master trust regulation

20. TPR has taken steps to mitigate the risks posed by poorly-run master trusts. In May 2014 it published a master trust assurance (MTA) framework, developed with the Institute of Chartered Accountants in England and Wales (ICAEW). This enables reputable schemes to demonstrate adequate standards of governance and administration and, in turn, TPR signposts employers to such schemes.[30] Nine master trusts have received MTA accreditation, including NEST, Now: Pensions and the People's Pension. Many of the same firms are among the 12 master trusts that have been through the PLSA's parallel "quality mark READY" governance assurance scheme.[31]

21. Such accreditation schemes are, however, voluntary and TPR has no power to compel trusts to meet MTA standards.[32] Large and accredited master trusts supported calls for a stronger regulatory framework.[33] Lesley Titcomb told us that there was "a gap" in her organisation's powers and she was in discussions with the DWP about how this might be addressed.[34] We put our concerns to the Department, and Charlotte Clark, Director of Private Pensions, acknowledged that the growth of master trusts had taken them by surprise.[35] The Minister assured us that the immediate risks to savers were small, but that the problem needed to be addressed urgently:

> I don't want to scaremonger. There are tiny amounts of money in these schemes at the moment. Now is the time to be looking to do this. That is why I am so exercised about pressing for this now.[36]

22. The Minister told us that she was pressing her colleagues in Government for a new Pensions Bill.[37] Charlotte Clark added that the Department had been "working through the policy and what is the right approach for this, so that we would be ready to legislate as soon as we could".[38]

28 BBC, Thousands told their pension savings could be at risk, February 2016
29 Ibid
30 The Pensions Regulator (PAE0002)
31 Q23: Recent pension policy developments (Joanne Segars)
32 Q149 (Lesley Titcomb)
33 NOW: Pensions (PAE0008); The People's Pension (PAE0032)
34 Q152 (Lesley Titcomb)
35 Q176 (Charlotte Clark)
36 Q186 (Baroness Altmann)
37 Q163 (Baroness Altmann)
38 Q178 (Charlotte Clark)

23. **Gaps in pension law and regulation have allowed potentially unstable master trusts onto the market. Should one of these trusts collapse, there is a very real danger that ordinary scheme members could lose retirement savings. There is also a risk that faith in auto-enrolment as a whole will be undermined.** ***We support the Minister's call for a Pensions Bill to introduce stronger regulation of master trusts. We recommend the Bill makes provision for The Pensions Regulator (TPR) to have power to enforce:***

- ***minimum financial and governance standards for market entry;***
- ***ongoing requirements for master trust schemes, which might include making compliance with the master trust assurance framework mandatory; and***
- ***measures to protect member assets in the event of a master trust winding up.***

4 Assisting small business

24. The process of extending AE compliance requirements to small and micro-employers (SMEs) began in June 2015 and will continue to February 2018. As we noted in chapter 1, this will be the most challenging phase of AE implementation. The DWP explained that this is because SMEs do not have the same resources as their larger counterparts:

> Small and micro employers are likely to find automatic enrolment more challenging because they will not have the same level of infrastructure to manage their finance, payroll and HR functions, or sufficient time to acquire knowledge of pension schemes and study the details.[39]

The Minister said it was "crucial to help these 1.8 million small employers to know that they need to do it, and then to cope with it".[40] This chapter considers what more the Department should do.

Communications and compliance

25. The TPR writes to employers 12 months, six months and one month before their staging date, from which they are required to auto-enrol employees. They receive further letters just after their staging date and immediately before they are required complete a declaration of compliance. In October 2015, the Pensions Regulator launched an online step-by-step guide to auto-enrolment, specifically designed to help SMEs comply. Mike Cherry, Policy Director at the Federation of Small Businesses (FSB), said the guide gave businesses "a much clearer and easier understanding of what their duties may be".[41] TPR also holds regular meetings with professional bodies for bookkeepers, accountants and Independent Financial Advisers.[42]

26. In addition to these targeted communications, DWP has run advertising campaigns to raise general awareness of AE. At the launch of AE, it ran a campaign called *We're all in* but found it "did not resonate well with small and micro employers and their employees".[43] In October 2015, it launched a new campaign called *Don't Ignore the Workplace Pension* which featured a giant and psychedelically decorated furry creature called Workie (shown in Figure 2). The DWP described the campaign as

> deliberately disruptive and specifically designed to raise awareness, prompt small and micro employers to find out about their duties and start the auto enrolment process.[44]

Following the launch of the campaign, visits to the Pensions Regulator's website quadrupled.[45]

39 Department for Work and Pensions (PAE0024)
40 Q162 (Baroness Altmann)
41 Q45 (Mike Cherry)
42 Q115 (Charles Counsell)
43 Department for Work and Pensions (PAE0024)
44 Ibid
45 PLSA (PAE0063)

Figure 1: Workie

27. We heard concerns from small business representatives, however, that awareness of AE was not tantamount to a readiness to comply.[46] The Chartered Institute of Payroll Professionals (CIPP) told us that "it is too late for awareness-raising to be the primary purpose of the government's communications".[47] The Workie character, they said, gave the impression that auto-enrolment was

> soft and fluffy and in some way optional—the characters in the TV advertising choose to ignore Workie—with no apparent consequence, whereas the reality will be for them to run the risk of subsequently being fined a great deal of money that they may not be able to afford.[48]

Ian Cass, Managing Director at the Forum of Private Business, concurred that as SMEs faced fines for non-compliance, it was time for the message to "get a bit stronger".[49]

28. If an employer fails to complete a declaration of compliance five months after their staging date TPR issues a compliance notice. If the employer does not respond then a fixed-penalty notice of £400 is issued. TPR can then issue escalating penalty notices, described by Mike Cherry as "draconian" and having the potential to "easily bankrupt a small business".[50]

29. CIPP said a better understanding of the fines that could be levied would motivate small employers to take action to comply. TPR statistics show that nearly 8,000 compliance notices have been issued since 2012, and nearly 70% of them were issued in the six months to March 2016.[51] TPR noted levels of non-compliance were far lower than they had

46 CIPP (PAE0007), Q40 (James Lowman)
47 Ibid
48 Ibid
49 Q41 (Ian Cass)
50 Q45 (Mike Cherry)
51 http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-use-of-powers-march-2016.pdf

initially forecast,[52] though they predict further increases as AE requirements extend to more SMEs.[53] It was suggested that SMEs would respond well to more direct messages.[54] Salvus, a master trust, said

> perhaps Workie can grow some sharp teeth and point out the consequences in blunt terms, of not complying. Many small employers we talk to really do think that auto enrolment is an issue that will go away and therefore are not prepared to engage".[55]

TPR acknowledged they had adopted a more direct approach in a radio advertisement because "employers want to be told what to do and they responded positively to the message 'It's the law'."[56]

30. **DWP and TPR have taken positive steps to engage with smaller employers. Communications campaigns have successfully raised awareness of AE. The priority now must be for small and micro businesses to understand their AE duties and the consequences of non-compliance.** ***We recommend that DWP and TPR adapt AE communications to focus on the financial consequences of non-compliance and emphasise that AE cannot be ignored.***

Selecting the right scheme

31. Employers are responsible for selecting the appropriate AE pension scheme for their employees. Employers are free to choose any qualifying pension scheme that is willing to accept their custom in order to comply with their automatic enrolment duties. TPR told us that selecting a scheme is one of the most significant challenges for smaller employers:

> Concerns include finding a scheme that will accept them, ensuring they make the best choice of scheme for their employees, addressing the risk of challenge from their staff if the scheme is not well run, and making sure that the scheme they choose works with their payroll software.[57]

32. CIPP highlighted a particular concern among employers about future legal action against them by employees if it appears they selected an inappropriate scheme or could not demonstrate they had taken adequate steps to choose an appropriate one.[58] The Minister told us that anyone advising an employer would "be ill-advised" to formally recommend a scheme.[59] For the smaller employer, reliant upon their payroll bureau or external accountant, there is a distinct lack of clarity regarding where a potential liability for "advice" would fall. They assured us, however, that employers themselves would not be liable for poor scheme performance. Charlotte Clark said

52 Q128 (Charles Counsell)
53 The Pensions Regulator, Automatic enrolment: Compliance and enforcement Quarterly bulletin, 1 October – 31 December 2015
54 Q42 (Ian Cass)
55 Salvus Master Trust (PAE0010)
56 The Pensions Regulator (PAE0002)
57 Ibid
58 CIPP (PAE0007)
59 Q185 (Baroness Altmann)

> If you are an employer and you have made a decision, there is no liability—that is clear in the legislation. If you have decided to go with NEST rather than NOW: or People's, there is no liability that can fall on you as an employer.[60]

33. Whilst this answer appears definitive, legal experts suggested the situation may be more complicated. Tristan Mander, a pensions lawyer at Ward Hadaway, said "it would be unwise to interpret such a statement as providing a safe harbour for employers, as it only addresses one source of legal obligations".[61] His view was that employers will need to be able to demonstrate that they took adequate steps to ensure they selected an appropriate pension scheme:

> The courts are very unlikely to decide that arrangement B ought to have been chosen over arrangement A, as that is qualitative decision that is outside of their remit, but they are now likely to find that an employer failed in its duty to follow proper process in taking its decision and hence they will find the employer liable for any loss suffered directly as a result.[62]

34. Catherine McKenna, Global Head of Pensions at law firm Squire Patton Boggs, told us that there was uncertainty about who would compensate employees for poor scheme performance:

> For example should it be the fund provider, the IGC [Independent Governance Committee] if they failed to identify and report poor governance or the employer for failing to appraise the IGC's adequate monitoring of the default fund?[63]

She said that clarity was needed on where liability would fall and that DWP should confirm to employers that "engagement and compliance with the minimum governance standards is sufficient to discharge them of liability for poorly performing or failed default funds."[64]

35. In her evidence to us the Minister said that employers needed to be very careful to choose a decent scheme for their employees.[65] Tristan Mander told us that "the need to suggest such due diligence implies by itself the potential for liability."[66] He told us that employers need not go to extreme lengths in choosing a scheme but that they should

> exercise good decision-making hygiene, take proportionate steps and record their genuine attempts at finding the most appropriate arrangement to utilise, should anyone challenge their decision in future.[67]

36. **The Department have stated unambiguously that employers are not liable for their choice of AE pension scheme. Legal experts, however, have told us there could be grounds for legal action if employers cannot demonstrate due diligence.** ***We recommend DWP use their response to this report to make a clear and comprehensive statement***

60 Ibid (Charlotte Clark)
61 Tristan Mander (PAE0066) Other sources of legal obligations might include implied terms in employment contracts
62 Ibid
63 Catherine Mckenna (PAE0067)
64 Ibid
65 Q183 (Baroness Altmann)
66 Tristan Mander (PAE0066)
67 Ibid

about an employer's potential liability. DWP should also confirm where liability will fall if a scheme performs badly or fails. This would provide reassurance to small and micro-employers choosing a scheme.

HMRC Basic Tools

37. TPR told us that it was important that all employers had payroll software compatible with AE to automate processes such as "working out which members of staff must be automatically enrolled and calculating the pension contributions that are due".[68] For this to work most effectively, that software should be compatible with that used by the employer's chosen pension scheme, enabling the efficient and reliable transfer of data.[69] NEST said they were working with payroll software providers, such as Sage and IRIS, to ensure compatibility.[70] The People's Pension, however, told us that "not all employers are willing to pay for the latest package so more needs to be done to simplify the processes for small employers".[71]

38. In December 2015, approximately 400,000 employers were using HM Revenue and Customs (HMRC) software called Basic PAYE Tools (BPT). BPT were introduced to help small employers deal with the Real Time Information (RTI) payroll reporting requirements introduced in 2013. They are free and designed for businesses with nine employees or less. Stakeholders suggested that the BPT should be developed to support AE, in some cases questioning why this had not already happened.[72] Sara Graff, who runs the payroll agency Taxing Nannies, told us "an all-integrated system [...] would make everything much simpler".[73]

39. Charlotte Clarke explained that DWP and HMRC had discussed building on the BPT to support AE but decided that this was not the right approach as the BPT will not be available in the longer term.[74] Mark Dearnley, HMRCs Chief Digital and Information Officer, clarified:

> HMRC Digital's view is that we will not rebuild or evolve the Basic PAYE Tool, but instead we'll be working on delivering APIs to replace functionality of Basic PAYE Tool to software applications chosen by employers so that external software developers can build integrated products for businesses, agents and payroll bureaux.[75]

The Forum of Private Business told us that free alternatives to BPT "may take time to appear" and questioned whether they would be trusted as much as the current tool.[76]

40. TPR has recognised the need among BPT users for "some form of automated support" for AE.[77] Following a consultation in March 2015, they found that a high proportion of BPT

68 The Pensions Regulator (PAE0002)
69 Ibid
70 NEST (PAE0025)
71 The People's Pension (PAE0032)
72 Salvus Master Trust (PAE0010); Forum of Private Business (PAE0035)
73 Q36 (Sara Graff)
74 Q202 (Charlotte Clark); Department for Work and Pensions (PAE0036)
75 HM Revenue and Customs (PAE0034). An API is a set of routines, protocols and tools for building software and applications.
76 Forum of Private Business (PAE0035)
77 The Pensions Regulator, Helping users of HMRC's Basic PAYE Tools undertake automatic enrolment calculations, August 2015

users would not seek the use of commercially available software and that some employers would have "concerns about free commercial software with functionality to support automatic enrolment".[78] Though employers favoured extending the BPT to support AE, TPR said this was "not an option" and instead developed a separate Basic Assessment Tool (BAT).[79]

41. The BAT is available free of charge from the TPR website. It has limited functionality and is a downloadable Excel spreadsheet rather than an online tool. The BAT is able, for up to 15 members of staff, to:

- indicate who should be automatically enrolled into a pension scheme; and
- provide employer and employee contribution values where applicable.

The BAT cannot:

- provide data to the pension provider;
- support salary sacrifice arrangements;
- calculate any refunds; or
- account for staff being paid at different intervals.

42. **The decision not to develop the HMRC Basic PAYE Tools (BPT) to support AE was a mistake. The BPT are trusted by small and micro employers, many of whom will not be able or willing to use commercially available software. TPR has acknowledged that small and micro employers need automated support to cope with AE. Its solution has been to build an entirely separate Basic Assessment Tool that has limited functionality and cannot send information to pension providers. This risks undermining AE. *We recommend that DWP work with HMRC to expand Basic PAYE Tools to support small businesses in meeting their automatic enrolment obligations.***

78 Ibid
79 Ibid

5 Safeguarding pension saving

The Lifetime ISA

43. The Lifetime ISA (LISA) was announced in the March 2016 Budget speech. This new savings product is scheduled to be available to people aged under 40.[80] The key features of the LISA are:

- savers can put in up to a £4,000 per year;
- until the saver reaches their 50th birthday, annual LISA savings will be supplemented by a 25% Government bonus;
- savings, including the bonus, can be withdrawn at any time to purchase a first home;
- savings can be withdrawn tax-free from the saver's 60th birthday; and
- savings withdrawn at any other stage will incur a 5% charge and the Government bonus (and any growth or interest on it) will be lost.

44. The Treasury said the purpose of the LISA is to "help young people save flexibly for the long term and ensure they do not have to choose between saving for retirement and saving for their first home".[81] They intend to bring forward legislation in autumn 2016 to introduce the LISA from April 2017.[82] We heard concerns that the LISA could compete with workplace pensions, undermining AE and pension saving.[83] We took additional oral and written evidence on this issue.

Complement or competitor?

45. We heard conflicting views from Government on what the LISA is for. The DWP told us that the LISA is "not a part of the pension system but an additional flexible savings product that can complement pension savings".[84] Similarly, the Minister said:

> A pension is a pension and an ISA, whatever you call it, is not a pension … It does concern me if people are trying to suggest that this Lifetime ISA is somehow a pension; in my view it is not.[85]

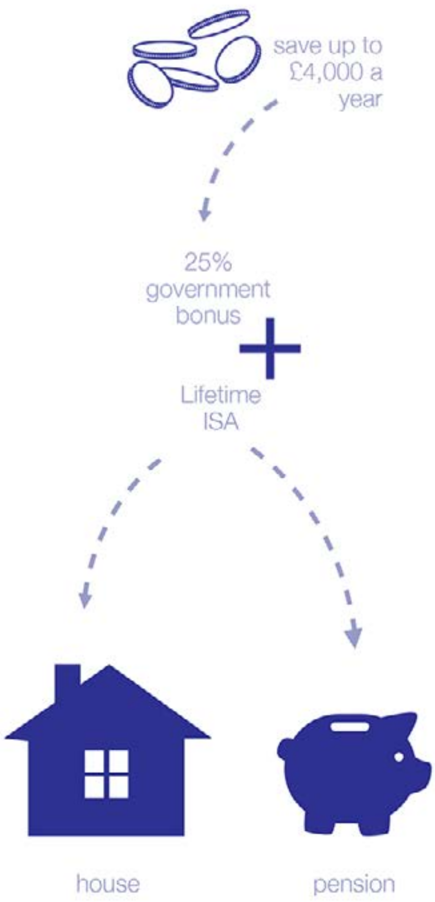
46. In his Budget speech, however, the Chancellor stated the LISA was

> for those under 40, many of whom haven't had such a good deal from the pension system.[86]

80 HM Treasury, Budget 2016, 16 March 2016
81 Ibid
82 Gov.uk, The new Lifetime ISA
83 Aegon (PAE0043), Zurich (PAE0058)
84 Second Memorandum to the Work and Pensions Select Committee
85 Q343: Oral evidence on Intergenerational Fairness, HC 705 (Baroness Atlmann)
86 HoC Debates, 16 March 2016, CL 996

As shown in Figure 3, the Treasury's LISA factsheet depicts savings going towards either a house or a piggy bank labelled "pension".[87] People could certainly be forgiven for concluding that the LISA was, in part, a pension product.

Figure 2: Treasury presentation of LISA



47. The DWP told us that "saving through automatic enrolment or a Lifetime ISA is not an either/or decision for individuals".[88] However, Michael Johnson, Research Fellow at the Centre for Policy Studies and architect of the LISA, acknowledged that many employees not already saving or in a pension scheme would have to make a decision about whether they saved their money in a pension or a LISA—they would not be able to afford both.[89] He added:

> given the choice, many people would prefer to contribute to an ISA rather than a personal pension. For many, ready access to post-tax contributions is valued above tax relief.[90]

48. Many witnesses concurred that some people would opt out of AE in order to save in a LISA. For example, Royal London, a pensions provider, said:

87 See,https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508117/Lifetime_ISA_explained.pdf
88 Second Memorandum to the Work and Pensions Select Committee (PAE0055)
89 Q232 (Michael Johnson)
90 Michael Johnson (PAE0038)

> The introduction of LISA requires young savers who would have been auto enrolled into their workplace scheme to make very difficult decisions. Inevitably if they have insufficient resources to save in both tax-advantaged vehicles then many more people will opt out of their workplace pension.[91]

49. Zurich, an insurance company, said of the LISA

> it may not be clear to younger employees whether auto-enrolled pensions are the best thing for personal contributions. As such, there is a real danger that the Lifetime ISA could derail auto-enrolment and reverse the progress which has been made in encouraging people to save for later life. [92]

The ABI concurred, noting that the LISA risked undermining AE's great success in encouraging young people to save.[93] Whilst young people who switch to the LISA are still saving, they will not be saving in the most effective way.

50. Age UK questioned the rationale of combining retirement and home savings and said that the timescales and appetites for risk are "so different for the two objectives that it would difficult for the ISA to develop an investment strategy to suit both needs."[94] The PLSA said that the option to take retirement savings early "severs the fundamental link between saving for retirement and maximising the chance of having an adequate income in retirement."[95] It also pointed out evidence from similar schemes in the US that showed that once money left retirement savings, it tended not to be replaced.[96] Royal London noted that saving for a first home may have an "emotional attraction" that leads it to be prioritised over retirement saving.[97]

Problematic timing

51. Witnesses also questioned the timing of the LISA introduction. Now: Pensions told us

> auto enrolment is at a critical stage and it is vital that any policy reform does not jeopardise its success. We therefore believe it is a dangerous time for the Government to introduce the Lifetime ISA that will prompt many people to make potentially life changing choices between two different types of savings vehicles.[98]

Royal London concurred:

> By launching LISA before auto enrolment has fully worked its way through the system (many employers are yet to stage) the Government is jeopardising a successful and widely-supported policy which is starting to address the widespread issue of inadequate retirement savings.[99]

91 Royal London (PAE0050)
92 Zurich (PAE0058)
93 Association of British Insurers (PAE0062)
94 Age UK (PAE0042)
95 PLSA (PAE0063)
96 Ibid
97 Royal London (PAE0050)
98 Now: Pensions (PAE0057)
99 Royal London (PAE050)

52. The Pensions Regulator (TPR) argued that by 2017, when the LISA is scheduled to be available, a significant number of additional employers will have passed their staging dates.[100] There will still, however, be thousands of small and micro employers left to stage and the two increases in contribution rates will be yet to come. The Department itself highlighted the danger of changing major projects during implementation and suggested "we should wait until we get to the end of auto-enrolment" and then reflect on potential changes.[101]

Communication

53. We heard that signposting to guidance and advice would be crucial to ensuring young people are adequately informed to make good savings choices.[102] Royal London said that guidance sources are "not geared up to serve" young people weighing up whether to opt out of AE in favour of a LISA.[103] Aon, an insurance company, cautioned that young people may be a group "most at risk of making inappropriate decisions".[104]

54. We heard various calls for the Government to play a more active role in helping people make financial choices around the LISA.[105] DWP said "it is not the role of the Government to advise individuals how and where to invest their money."[106] Witnesses suggested, however, that the Government did have a responsibility to ensure that it did not misrepresent the relative merits of different savings products. For example, Prospect told us:

> the presentation of the Government contribution to a Lifetime ISA as a 25% bonus could easily give many people the impression that it attracts a more favourable tax treatment than pension contributions.[107]

55. In announcing the LISA in the Budget, the Chancellor explained that young people "find pensions too complicated and inflexible".[108] By contrast, the ISA "brand" is trusted[109] and has a reputation for simplicity.[110] Steve Webb, former Pensions Minister, however, said that the LISA was the chancellor's "shiny new initiative" that could undermine the progress of automatic enrolment.[111] He questioned how young people would know which savings vehicle would be best for them.

LISA is unlikely to be a better option than AE

56. For most employees the decision to save in a LISA *instead* of through a workplace pension would be detrimental to their retirement savings.[112] This is because, unlike a LISA, AE attracts employer contributions. The additional amounts that would be accrued in AE

100 The Pensions Regulator (PAE0059)
101 Q191 (Charlotte Clark)
102 Aviva (PAE0045)
103 Royal London (PAE0050)
104 Aon (PAE0054)
105 Ibid
106 Second Memorandum to the Work and Pensions Select Committee
107 Prospect (PAE0053)
108 HoC Debates, 16 March 2016, CL 996
109 Q213 (Michael Johnson)
110 Fidelity International (PAE0044)
111 Financial Times, Budget: Lifetime Isa boost for younger savers
112 Association of British Insurers (PAE0062)

compared to a LISA vary substantially. Someone earning £25,000 per year and saving 4% each year in a workplace pension for 42 years may have accrued £50,000, or almost 50%, more than they would have done saving the same money in a LISA.[113]

57. The main groups of people who may be better off focusing their retirement savings in a LISA are those not well serviced by employer pensions. Most notably, self-employed people do not benefit from employer pension contributions. The flexibility offered by a LISA, which may be particularly valuable for the self-employed, may make it a more desirable option.[114] We consider the self-employed further in the next chapter. Employees earning under £5,824 are not eligible for employer contributions, even if they opt-in to AE, and so a LISA may similarly suitable for such people.

58. The employees principally placed to benefit from retirement saving in a LISA are those who wish to *supplement* pension saving. If an individual is already benefiting from maximum employer pension contributions, depending on their tax circumstances a LISA may be a more attractive saving option than more employee contributions.[115] Similarly, people who have reached their Annual or Lifetime Allowance for pension tax relief would have access to a tax-efficient means of saving more.

59. **For some employees, notably higher earners, saving for retirement in a Lifetime ISA may complement pension saving. Those with a limited disposable income, however, will need to weigh competing priorities and many will be faced with the option to either save in a LISA or remain in their workplace pension. Whatever the attractions of the LISA, it must not be presented as a direct alternative to AE. Savings under AE carry an employer contribution, which will not be available in the LISA. Opting out of AE to save for retirement in a LISA will leave people worse off. Government messages on this issue have been mixed. While the DWP has been very clear that the LISA is not a pension product, the Treasury has proffered an alternative view.** ***We recommend the Government develop a communications campaign that highlights the differences between the LISA and workplace pensions. It should make it clear that the LISA is not a pension and that, for employees who have been automatically enrolled, any decision to opt-out is likely to result in a worse outcome for their retirement. The Government should also conduct urgent research on any effect of the LISA on pension saving through AE. The findings of this research should be reported in time for the 2016 Autumn Statement. We will review that evidence before the introduction of the LISA.***

113 Ibid
114 True Potential (PAE0056)
115 Aon (PAE0054)

6 Building on automatic enrolment

60. Once implementation is completed, the DWP predicts that approximately 9 million people will be newly saving, or saving more, in a pension due to AE.[116] The programme has undoubtedly been a success so far. We heard, however, that "success is limited as inclusion is limited".[117] Many people are excluded from AE and others who are included will still be under-saving for retirement. In this final chapter we consider steps that could be taken to encourage even greater and wider saving in workplace pensions.

61. Small business representatives and experts from the pension industry agreed it would be unwise to make any major changes to AE until the programme has completed. The FSB told us that changes now would "distract from the task at hand: namely supporting small firms to implement their auto-enrolment duties".[118] The PLSA said that the Government should "focus on making sure the programme for implementation is rolled out as smoothly as possible and high coverage levels are maintained."[119] The AE project will be reviewed by Government in 2017. The Minister told us

> It will be a wide-ranging review and an opportunity for us all to engage in looking at how best we should steer auto-enrolment forward. I hope that the Committee will engage with us.[120]

62. **Any further changes to AE should be implemented after the critical phase, due to complete in 2018, when small and micro employers must comply with their duties. The 2017 review will be an ideal opportunity to consider the future of AE and we welcome the Minister's invitation to engage with it.**

Low paid people

63. The Pensions Policy Institute (PPI) said that just under a quarter of those in work are ineligible for AE.[121] Discounting those employees already saving into a pension, this leaves around 4.8 million employed people who are both ineligible for AE and not saving in a pension scheme. The main reason for workers not qualifying for AE is low pay: 3.5 million of those people not eligible, 13% of the UK employed population, earn below the £10,000 earnings threshold. They are disproportionately likely to be female, BME and disabled.[122] These disparities are reflected in levels of pension saving, which are also relatively low in those groups.[123]

116 Department for Work and Pensions (PAE0024)
117 GMB (PAE0018)
118 The Federation of Small Businesses (PAE0028)
119 Pensions and Lifetime Savings Association (PAE0006)
120 Q191 (Baroness Altmann)
121 Pensions Policy Institute, Who is ineligible for automatic enrolment?
122 Ibid. The other reasons why employees not already saving into a pension scheme may be ineligible for AE are that they are under 22 or over the state pension age.
123 Scottish Widows (PAE0017) and DWP, Official Statistics on workplace pension participation and saving trends of eligible employees, 2014

64. The gender disparity was of particular concern to the Department. The Minister told us:

> I am conscious that there is a gender issue here; there are a lot of women who are earning less than £10,000 who will not be getting the benefit of auto-enrolment. They can opt in, but of course they don't get the behavioural nudge[124]

65. The earnings trigger threshold for AE was frozen in 2016–17. The DWP told us this would bring nearly 100,000 people into AE.[125] This will still, however, leave just under four million working women ineligible. The Minister told us that a "major aim is to bring in as many low earners as possible".[126]

66. An obvious option would be to reduce the earnings trigger threshold. David Fairs, Chairman of the Association of Consulting Actuaries (ACA), argued that removing the lower threshold for qualifying earnings (currently £5,824 per year) would enable the earnings trigger to be reduced to "£5,000 or £6,000". He continued:

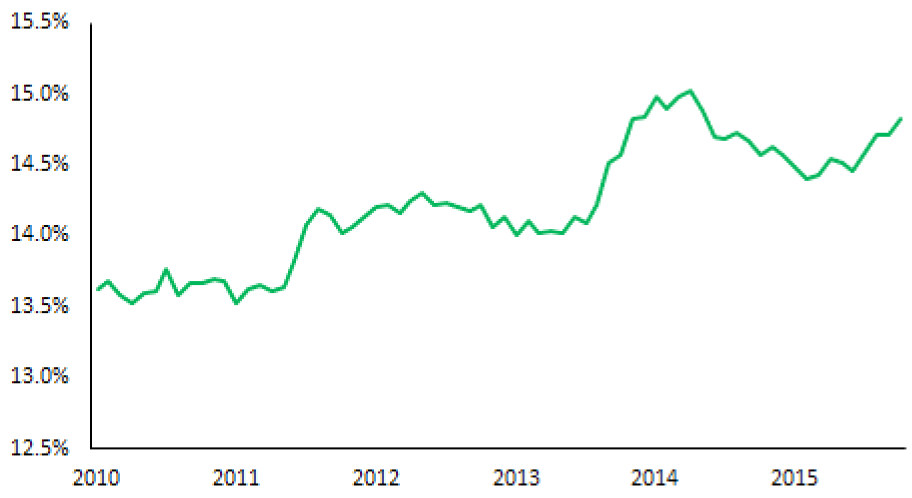
> That simplifies the administration and helps the lowest paid, but also brings in much more part-time employees and particularly women into auto-enrolment.[127]

Self-employed people

67. The number of self-employed people in the UK is at an all-time high. In February 2016, there were 4.6 million, 120,000 more than a year earlier and almost one million more than a decade ago.[128] Figure 3 shows that the self-employed make up a growing share of the working population. As Thomas Brooks, Senior Policy Researcher at Citizens Advice noted, "self-employment is no longer a niche enterprise".[129] People approaching aged 50–64 were contributing to this rise as traditional "cliff-edge retirement", in which a person moves immediately from long-term employment into full retirement, becomes rarer. People are increasingly likely to have a period of self-employment before retirement.[130]

124 Q193 (Baroness Altmann)
125 Department for Work and Pensions (PAE0024)
126 Q193 (Baroness Altmann)
127 Q94 (David Fairs)
128 ONS, Statistical bulletin: UK Labour Market, April 2016
129 Q76 (Thomas Brooks)
130 Q77 (Yvonne Braun)

Figure 3: People in self-employment as a % of total employment, UK



Source: ONS, Statistical bulletin: UK Labour Market, April 2016

68. While the number of self-employed people has risen, the number of self-employed people saving into a pension has fallen. The propensity of self-employed people to save in a pension has therefore fallen markedly. The Resolution Foundation found that between 2001–02 and 2012–13 "the number of self-employed individuals actively making pension contributions fell from 1.1 million to 0.5 million".[131] While self-employed people were more likely to save through other vehicles and may be able to derive retirement income from housing or selling their business, the Resolution Foundation concluded that:

> given most will not benefit from auto-enrolment, this suggests more needs to be done to convince the self-employed of the value of pensions and the need to start saving now.[132]

Stakeholders agreed that self-employed workers' pensions needed to be addressed.[133]

69. The problem of how to defuse the "ticking time bomb"[134] of self-employed people's pensions is not new. Successive Governments have struggled to find a way of bringing the self-employed into AE. In response to a Work and Pensions Committee report in 2007, which recommended consideration of AE for the self-employed, the then Government said they "had not been able to find any levers to put the self-employed on a par with employed workers".[135] The current Pensions Minister told us "it is very difficult to see how you would automatically put some of the self-employed money into a pension scheme".[136]

70. A potential solution may be to auto-enrol self-employed workers through the tax system. Tim Sharp, Pensions Policy Officer at the TUC, suggested that the Government could "harness the lessons from auto-enrolment, such as inertia", to enrol self-employed

131 Resolution Foundation, The self-employed and pensions, May 2015
132 Ibid
133 Q76 (Thomas Brooks)
134 Ibid
135 Report on Personal Accounts, Government response to the Fifth Report of the Work and Pensions Select Committee, Session 2006–07
136 Q188 (Baroness Altmann)

people into a pension through the income tax self-assessment process.[137] Charlotte Clark told us that DWP had held discussions with HMRC about "some sort of way we could encourage the self-employed through their tax-returns" but added that they were "a few years away from having an option".[138] Another option, which may be worthy of investigation, is for the Treasury to give-up a portion of Class 4 National Insurance Contributions (currently paid by the self-employed) to go towards a pension. This could be matched by a payment by the self-employed worker.

71. Thomas Brooks added that the self-employed also needed better information and guidance about pensions.[139] Self-employed people may not understand that they can benefit from tax relief on their pension contributions and can usually take up to 25% of their pension pot tax free.[140] Yvonne Braun, Director of Long Term Savings Policy at the ABI said that "the tax incentive must be much, much clearer".[141]

Contribution rates

72. We heard that the statutory combined contribution rates of 8% of qualifying earnings, due to be introduced in April 2019, will not be enough to provide most people with an adequate pension.[142] A 2014 scenario analysis by DWP predicted that with those contributions, 11.9 million people would be under-saving for their retirement.[143]

73. One option for reform would be to extend qualifying earnings. Contributions are currently only paid on earnings between £5,824 and £43,000 per year.[144] Some stakeholders suggested that the thresholds should be removed altogether.[145] The FSB, however, cautioned that "enrolling all staff from their first £1 of earnings would be unfeasible and add to the costs facing small employers."[146] Even with changes to thresholds for qualifying earnings, however, the statutory minimum will not be enough.[147] Mike Cherry told us that "we all know that that is very unlikely to be enough or sufficient for anybody on low earnings to have something sensible for their retirement."[148]

74. The contribution levels required to achieve sufficient income in retirement depend on a number of factors, including lifestyle in retirement, earnings whilst in work, number of years spent contributing and the indexation mechanism for the state pension. The PPI found that individuals would need 11–14% contribution rates (depending on whether they were a low, median or high earner) in order to have a 75% chance of achieving their target

137 Q85 (Tim Sharp)
138 Q189 (Charlotte Clark)
139 Q83 (Thomas Brooks)
140 Ibid
141 Q77 (Yvonne Braun)
142 Q90 (Yvonne Braun)
143 DWP, Scenario analysis of future pensions incomes, August 2014
144 Thresholds for 2016–17
145 GMB (PAE0018)
146 The Federation of Small Businesses (PAE0028)
147 The PPI use replacement rates to assess the adequacy of retirement income and so define pension adequacy as the extent retirement income allows individuals to replicate the standards of living they had while in working life, see http://www.pensionspolicyinstitute.org.uk/publications/reports/what-level-of-pension-contribution-is-needed-to-obtain-an-adequate-retirement-income
148 Q52 (Mike Cherry)

replacement income, which would typically be two-thirds of pre-retirement income. The ACA recommend the DWP increase the statutory contribution rate by 1% every two years from 2020 until there was a combined rate of 1416%.[149]

75. The Department said it is "keen to encourage saving beyond the 8 per cent minimum", which it acknowledges is unlikely to be enough in the longer-term.[150] The Minister warned, however, that further statutory increases could cause employees to opt out and that she was reluctant to force employers to contribute more.[151] She suggested instead that pension providers should actively engage with savers and encourage them to contribute more when possible. We also heard that "automatic escalation", whereby an individual's contribution rate automatically increases in the event of a pay rise, could be effective.[152] The ABI told us:

> Like automatic enrolment, this could be done on an 'opt-out' basis to ensure financially engaged individuals retain the flexibility to prioritise other possible financial pressures.[153]

Multiple small pension pots

76. DWP estimate that people will work for an average of 11 employers during their working life.[154] If no reforms are implemented they predict this could lead to the creation of 12 million small pension pots by 2050.[155] Our predecessor committee noted that multiple small pots could cause problems, both to employees trying to track their pension savings and to pension providers bearing high administration costs.[156]

77. The Coalition Government began work on the automatic transfer of pension pots, which would allow a pension pot to follow the member as they moved through employment. The Minister told us that the current Government had put that work on hold because it was "important to see how the market develops".[157] Charlotte Clark explained that the Department was focussing instead on pensions dashboards, which would enable people to view all their pension savings in one place. This she claimed, would assist people in making decisions on whether to consolidate their savings.[158] We have advocated the creation of a pensions dashboard in successive reports on pension freedoms and the state pension.[159]

78. In the March 2016 Budget, the Government announced that it would "ensure the industry designs, funds and launches a pensions dashboard by 2019".[160] Stakeholders welcomed this announcement but said that the Government will need to play a strong

149 Association of Consulting Actuaries (PAE0012)
150 Department for Work and Pensions (PAE0024)
151 Q192 (Baroness Altmann)
152 Association of British Insurers (PAE0021)
153 Ibid
154 National Audit Office, Automatic enrolment to workplace pensions, November 2015
155 Ibid
156 House of Commons Work and Pensions Select Committee, Fourth Report of Session 2014–15, Progress with automatic enrolment and pension reforms, HC 668
157 Q195 (Baroness Altmann)
158 Q196 (Charlotte Clark)
159 House of Commons Work and Pensions Committee, First Report of Session 2015–16: Pension freedom guidance and advice, HC 371 and House of Commons Work and Pensions Committee, Eighth Report of Session 2015–16: Communication of the new state pension, HC 926
160 HM Treasury, Budget 2016, 16 March 2016

leadership role for the dashboard to be a success.[161] The People's Pension, a master trust provider, said that the dashboard should be "run and or owned by Government … but built by joint elements of the whole of the pensions industry".[162] They added that it would justifiable to levy the pension industry to pay for the dashboard because it could remove millions of pounds in costs from the system.[163]

79. Michael Johnson told us that some within the financial services industry were only paying lip service to the dashboard and it was not in their interests to see it come to fruition. He told us

> the Government has to exercise real leadership here. If it wants that dashboard to happen by 2019, it has to be very assertive because there are certainly a number of participants who currently are doing the nodding donkey act that have no interest in seeing it happen at all.[164]

80. Joanne Segars said that there needed to be a single dashboard with clear and consistent objectives, and she was concerned that there were a number of dashboards under development. She told us

> It would be unfortunate if we end up a bit like food monitoring where you go into one supermarket and you have one set of metrics, you go into another and you have something different, and then you give up and just go for the cream doughnut option if you are me. We do need to make sure that there is some consistency and some singularity.[165]

Issues for the 2017 review

81. ***We recommend that as part of its 2017 review of AE, the Government considers:***

- ***removing the lower qualifying earnings band for contributions and lowering the earnings trigger threshold in order to bring more low paid people, including many more women, into AE;***
- ***mechanisms for automatically enrolling self-employed workers, including how the income tax self-assessment system might be used;***
- ***approaches to increasing contributions beyond the statutory minimum of 8% of qualifying earnings, including mandatory increases in employee and employer contribution rates and means of encouraging greater voluntary contributions;***
- ***steps necessary to create a single, comprehensive pensions dashboard by 2019 and the degree of Government intervention necessary to deliver on its pledge.***

161 Q44: Recent pensions policy developments, HC 938-I (Huw Evans)
162 The People's Pension (PAE0032)
163 Ibid
164 Q288 (Michael Johnson)
165 Q43 (Joanne Segars)

Conclusions and recommendations

1. Automatic enrolment (AE) has so far been a tremendous success. It has resulted in more than six million people being newly enrolled into a workplace pension scheme. Rates of opting-out have been lower than expected. AE is on schedule to have a transformative effect on private pension saving, but it is now at a crucial and risky stage of its development. It is imperative that it is not undermined by other government-sponsored forms of saving. (Paragraph 10)

2. Gaps in pension law and regulation have allowed potentially unstable master trusts onto the market. Should one of these trusts collapse, there is a very real danger that ordinary scheme members could lose retirement savings. There is also a risk that faith in auto-enrolment as a whole will be undermined. (Paragraph 23)

3. *We support the Minister's call for a Pensions Bill to introduce stronger regulation of master trusts. We recommend the Bill makes provision for The Pensions Regulator (TPR) to have power to enforce:*

- *minimum financial and governance standards for market entry;*
- *ongoing requirements for master trust schemes, which might include making compliance with the master trust assurance framework mandatory; and*
- *measures to protect member assets in the event of a master trust winding up. (Paragraph 23)*

4. DWP and TPR have taken positive steps to engage with smaller employers. Communications campaigns have successfully raised awareness of AE. The priority now must be for small and micro businesses to understand their AE duties and the consequences of non-compliance. (Paragraph 30)

5. *We recommend that DWP and TPR adapt AE communications to focus on the financial consequences of non-compliance and emphasise that AE cannot be ignored.* (Paragraph 30)

6. The Department have stated unambiguously that employers are not liable for their choice of AE pension scheme. Legal experts, however, have told us there could be grounds for legal action if employers cannot demonstrate due diligence. (Paragraph 36)

7. *We recommend DWP use their response to this report to make a clear and comprehensive statement about an employer's potential liability. DWP should also confirm where liability will fall if a scheme performs badly or fails. This would provide reassurance to small and micro-employers choosing a scheme.* (Paragraph 36)

8. The decision not to develop the HMRC Basic PAYE Tools (BPT) to support AE was a mistake. The BPT are trusted by small and micro employers, many of whom will not be able or willing to use commercially available software. TPR has acknowledged that small and micro employers need automated support to cope with AE. Its

solution has been to build an entirely separate Basic Assessment Tool that has limited functionality and cannot send information to pension providers. This risks undermining AE. (Paragraph 42)

9. *We recommend that DWP work with HMRC to expand Basic PAYE Tools to support small businesses in meeting their automatic enrolment obligations.* (Paragraph 42)

10. For some employees, notably higher earners, saving for retirement in a Lifetime ISA may complement pension saving. Those with a limited disposable income, however, will need to weigh competing priorities and many will be faced with the option to either save in a LISA or remain in their workplace pension. Whatever the attractions of the LISA, it must not be presented as a direct alternative to AE. Savings under AE carry an employer contribution, which will not be available in the LISA. Opting out of AE to save for retirement in a LISA will leave people worse off. Government messages on this issue have been mixed. While the DWP has been very clear that the LISA is not a pension product, the Treasury has proffered an alternative view. (Paragraph 59)

11. *We recommend the Government develop a communications campaign that highlights the differences between the LISA and workplace pensions. It should make it clear that the LISA is not a pension and that, for employees who have been automatically enrolled, any decision to opt-out is likely to result in a worse outcome for their retirement. The Government should also conduct urgent research on any effect of the LISA on pension saving through AE. The findings of this research should be reported in time for the 2016 Autumn Statement. We will review that evidence before the introduction of the LISA.* (Paragraph 59)

12. Any further changes to AE should be implemented after the critical phase, due to complete in 2018, when small and micro employers must comply with their duties. The 2017 review will be an ideal opportunity to consider the future of AE and we welcome the Minister's invitation to engage with it. (Paragraph 62)

13. *We recommend that as part of its 2017 review of AE, the Government considers:*

- *removing the lower qualifying earnings band for contributions and lowering the earnings trigger threshold in order to bring more low paid people, including many more women, into AE;*
- *mechanisms for automatically enrolling self-employed workers, including how the income tax self-assessment system might be used;*
- *approaches to increasing contributions beyond the statutory minimum of 8% of qualifying earnings, including mandatory increases in employee and employer contribution rates and means of encouraging greater voluntary contributions;*
- *steps necessary to create a single, comprehensive pensions dashboard by 2019 and the degree of Government intervention necessary to deliver on its pledge.* (Paragraph 81)

Formal Minutes

Wednesday 11 May 2016

Members present:

Rt Hon Frank Field, in the Chair

Heidi Allen
Ms Karen Buck
Neil Coyle
John Glen
Richard Graham
Craig Mackinlay
Steve McCabe
Jeremy Quin
Craig Williams

Draft report (*Automatic enrolment*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 81 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eleventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 23 May at 3.30 p.m.

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Wednesday 10 February 2016

Question number

Sara Graff, Taxing Nannies, **Katharine Swire,** and **Aileen Broomfield**	Q1–36

Wednesday 24 February 2016

Ian Cass, Managing Director, Forum of Private Business, **Mike Cherry,** Policy Director, Federation of Small Businesses, and **James Lowman,** Chief Executive, Association of Convenience Stores	Q37–74
Yvonne Braun, Director, Long Term Savings Policy, Association of British Insurers, **David Fairs,** Chairman, Association of Consulting Actuaries, **Tim Sharp,** Pensions Policy Officer, Trades Union Congress, and **Thomas Brooks,** Senior Policy Researcher, Citizens Advice	Q75–114

Wednesday 9 March 2016

Lesley Titcomb, Chief Executive, Pensions Regulator, and **Charles Counsell,** Executive Director for Automatic Enrolment, Pensions Regulator	Q115–160
Baroness Altmann CBE, Minister of State for Pensions, Department for Work and Pensions, and **Charlotte Clark,** Director of Private Pensions, Department for Work and Pensions	Q161–203

Wednesday 13 April 2016

Michael Johnson, Research Fellow, Centre for Policy Studies	Q204–293

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

PAE numbers are generated by the evidence processing system and so may not be complete.

1 ACS (Association of Convenience Stores) (PAE0026)

2 Aegon UK (PAE0043)

3 Age UK (PAE0042)

4 Aon (PAE0054)

5 Association of British Insurers (PAE0021)

6 Association of British Insurers (PAE0062)

7 Association of Consulting Actuaries (PAE0012)

8 Aviva (PAE0022)

9 Aviva (PAE0045)

10 BH Leake and Sons (PAE0029)

11 Carers UK (PAE0019)

12 CBI (PAE0033)

13 CBI (PAE0041)

14 CIPD (PAE0011)

15 CIPP (PAE0007)

16 CIPP (PAE0065)

17 Defaqto (PAE0023)

18 Department for Work and Pensions (PAE0024)

19 Department for Work and Pensions (PAE0036)

20 Department for Work and Pensions (PAE0055)

21 Fidelity International (PAE0044)

22 Financial Conduct Authority (PAE0027)

23 Forum of Private Business (PAE0035)

24 GMB (PAE0018)

25 Hargreaves Lansdown (PAE0046)

26 HM Revenue and Customs (PAE0034)

27 ICAEW (PAE0005)

28 Institute and Faculty of Actuaries (PAE0016)

29 Institute and Faculty of Actuaries (PAE0060)

30 Kyloe Partners (PAE0030)

31 Local Government Association (PAE0015)

32 Local Government Association (PAE0048)

33 Michael Johnson (PAE0038)

34 MRM (PAE0010)
35 National Union of Teachers (PAE0009)
36 NEST (PAE0025)
37 NOW: Pensions (PAE0008)
38 NOW: Pensions (PAE0057)
39 Pensions and Lifetime Savings Association (PAE0006)
40 PLSA (PAE0063)
41 Prospect (PAE0053)
42 Royal London (PAE0050)
43 Sanctum Software Ltd (PAE0001)
44 Scottish Widows (PAE0017)
45 Squire Patton Boggs (PAE 0067)
46 Standard Life (PAE0013)
47 StepChange Debt Charity (PAE0049)
48 The Federation of Small Businesses (PAE0028)
49 The Investment Association (PAE0040)
50 The Pensions Regulator (PAE0002)
51 The Pensions Regulator (PAE0059)
52 The People's Pension (PAE0032)
53 Trades Union Congress (PAE0014)
54 Trades Union Congress (PAE0039)
55 True Potential (PAE0056)
56 UNISON (PAE0052)
57 Unite (PAE0004)
58 VocaLink (PAE0003)
59 Ward Hadaway (PAE0066)
60 Zurich (PAE0058)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2015–16

First Report	Pension freedom guidance and advice	HC 371 (Cm 9183)
Second Report	Welfare to work	HC 363 (HC 720)
Third Report	A reconsideration of tax credit cuts	HC 548
Fourth Report	Benefit delivery	HC 372
Fifth Report	The local welfare safety net	HC 373 (HC 924)
Sixth Report	Understanding the new state pension – interim report on pension statements	HC 550
Seventh Report	Communication of state pension age changes –interim report	HC 899
Eighth Report	Communication of the new state pension	HC 926
Ninth Report	Support for the bereaved	HC 551
Tenth Report	In-work progression in Universal Credit	HC 549
First Special Report	Progress with automatic enrolment and pension reforms: Government and Financial Conduct Authority responses to the Committee's Fourth Report of Session 2014–15	HC 375
Second Special Report	Improving Access to Work for disabled people: Government response to the Committee's Second Report of Session 2014–15	HC 386
Third Special Report	Benefit Sanctions: Beyond the Oakley Review: Government Response to the Committee's Fifth Report of Session 2014–15	HC 557
Fourth Special Report	Pension freedom guidance and advice: Financial Conduct Authority Response to the Committee's First Report of Session 2015–16	HC 719
Fifth Special Report	Welfare-to-work: Government Response to the Committee's Second Report of Session 2015–16	HC 720
Sixth Special Report	The local welfare safety net: Government Response to the Committee's Fifth Report of Session 2015–16	HC 924