



House of Commons
Work and Pensions Committee

**Automatic enrolment:
Government Response
to the Committee's
Eleventh Report of
Session 2015–16**

**Fifth Special Report of Session
2016–17**

*Ordered by the House of Commons
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Work and Pensions Committee

The Work and Pensions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Department for Work and Pensions and its associated public bodies.

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[Frank Field MP](#) (*Labour, Birkenhead*) (Chair)

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Powers

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Publication

Committee reports are published on the [publications page](#) of the Committee's website and in print by Order of the House.

Evidence relating to this report is published on the [inquiry page](#) of the Committee's website.

Committee staff

The current staff of the Committee are Adam Mellows-Facer (Clerk), Margaret McKinnon (Second Clerk), Rod McInnes (Committee Specialist), Rachael Savage (Committee Specialist), Libby McEnhill (Committee Specialist), Andrew Wallace (Senior Committee Assistant), Alison Pickard (Committee Assistant), and Jessica Bridges-Palmer (Media Officer).

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Fifth Special Report

The Work and Pensions Committee published its Eleventh Report of Session 2015–2016, *Automatic Enrolment*, (HC 579) on 15 May 2016. The Government's response was received on 15 July 2016 and is appended to this report.

In the Government response, the Committee's recommendations appear in *italicised text* and the Government's responses are in plain text.

Appendix: Government response

Introduction

1. The Government welcomes the Work and Pensions Select Committee's report on automatic enrolment. Automatic enrolment is the cornerstone of this Government's private pension reforms and has consistently been supported by cross-party and industry consensus.
2. The Committee's report recognises that automatic enrolment has been a great success to date. Current figures now show that over 6.4 million eligible workers have been automatically enrolled by more than 171,000 employers while employer compliance remains high and opt-outs low.
3. The report also acknowledges that the Government recognises, and is preparing for, the most challenging phase for the programme with small and micro employers now beginning to enrol their eligible workers over the next three years. However, it identifies that the Department for Work and Pensions (the Department) and The Pensions Regulator (TPR) have already taken positive steps to support these employers with their new duties - for example through a refreshed communications campaign and tailored improvements to TPR's website.
4. The Government is committed to ensuring the smooth roll out of the final stages of automatic enrolment. The Department is learning from the experiences gained during the staged roll-out of the programme and as outlined above, has adapted the process to improve the support available to employers. The Department will continue to consider further improvements to support employers, particularly small employers and those who may need additional help.

The Government's response to the recommendations

Protecting Savers

Committee Recommendations

5. *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*
- *On-going 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.*

Government response:

6. Since the Committee's report, the Government has announced its intention to introduce a Pensions Bill in the next session. The purpose of the Pensions Bill is to further reform Britain's private pensions system. As the Government said at the Queen's Speech debate, the pensions Bill will address the current gap in the regulatory landscape for Master Trusts. It will include the provision of essential protections for people in Master Trusts including millions of automatically enrolled savers. The Government envisages protections in respect of minimum financial and governance standards, as well as extended powers for TPR to effectively regulate Master Trusts.

7. As part of this, the Department is actively engaging with the industry to help refine policy development. There has been a recent series of Ministerial roundtables to understand the views and practices within the industry on risks and mitigations. We will follow up on these with additional stakeholder events in the summer.

Assisting small businesses - communications

Committee Recommendations

8. *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.*

Government response:

9. The Department works closely with TPR to help small and micro employers understand their automatic enrolment duties. The Department has ensured that communications are tailored to the circumstances of small and micro employers and are focused on changing behaviour through a strategy focussed on educating and enabling compliance, and only using enforcement messages when required. This reflects that the majority of employers want to comply with the law.

10. The combination of advertising and direct communications has supported the achievement of a very high level of compliance; to date more than 171,000 employers have automatically enrolled over 6.4 million eligible workers.

11. Automatic enrolment communications include letters and reminder emails from TPR, in addition to TV, radio and digital advertising. The purpose of the advertising campaign has been to raise awareness and prompt employers to take action. More detailed information, including warnings about the financial consequences of non-compliance, is included in direct communications to employers, as appropriate, and on TPR's website. All automatic enrolment communications are thoroughly tested with employers, to ensure that they are delivering the most effective messages to meet the Automatic Enrolment Programme's objectives.

12. The original Workie advertising campaign prompted small and micro employers to take action to comply with their obligations. This was very successful. Research showed that messaging about employers' next steps could be even clearer and the TV and radio advertising deployed in May 2016 reflects this.

13. For the next stage of the campaign, the Department plans to continue encouraging employers to find out more and take action to comply. It will also develop and test messaging about the consequences of non-compliance, including the financial penalties that may be incurred, and the most appropriate channels to deliver these messages. The Department and TPR will continue to review the advertising campaign, to ensure that it supports the Programme's objectives and delivers value for money.

Assisting small businesses - selecting the Right Scheme

Committee Recommendations

14. *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.*

Government response:

15. The Government recognises the concerns felt by employers regarding their liability in terms of scheme choice and welcomes the opportunity to provide reassurance in response to this report.

16. An automatic enrolment workplace pension scheme must already be a qualifying occupational pension scheme or qualifying personal pension scheme, and in doing so meet minimum standards and quality requirements. They must also enable automatic enrolment to take place to satisfy statutory requirements. An employer must ensure that any pension scheme they choose meets these requirements if they want to use it for automatic enrolment.

17. Provided an employer has automatically enrolled their eligible staff into a qualifying scheme and declared their compliance with TPR, their legal duties under automatic enrolment legislation in relation to scheme choice are met.

18. Risks are inherent in any form of investment and performance will vary due to a range of factors, including, but not limited to, the external financial environment and individual scheme management. Automatic enrolment legislation does not impose any obligation on the employer to ensure a certain level of investment returns for their employees.

19. While there is no specific provision in automatic enrolment, or wider pensions legislation to prevent a member bringing legal action against an employer as respects performance of the pension scheme, provided an employer can evidence that they have had due regard to their choice of qualifying scheme and have acted in good faith in its selection, it is difficult to envisage that someone would have a strong claim against an employer in regards to this.

20. Having a landscape of quality scheme provision that employers and members can be confident in using is a key priority for the Government. TPR has already published a list of independently reviewed 'Master Trust' pension schemes on its automatic enrolment guidance pages for employers. The Regulator also provides links to other lists of schemes held, for example, by the Association of British Insurers – including schemes offered by insurance providers who are regulated by the Financial Conduct Authority. TPR is planning to add Group Personal Pensions that are open to all employers to the list held on its website following engagement with the industry.

21. Furthermore, the Government intends to strengthen the provision of essential protections for people in Master Trusts in its Pensions Bill this session.

Assisting small businesses – HMRC Basic Tool

Committee Recommendations

22. *We recommend that DWP work with HMRC to expand Basic PAYE Tools to support small businesses in meeting their automatic enrolment obligations.*

Government response:

23. The Government does not plan to develop or expand the Basic PAYE Tool (BPT) further to include automatic enrolment. This is because HMRC is developing Application Programme Interfaces to replace the functionality of BPT. This will enable external software developers to build integrated products for businesses, agents and payroll bureaux that incorporate the functionality of the BPT. The Government is working to understand how the migration of data from BPT to software applications chosen by employers can be supported, their customer journeys, the costs involved and the design requirements. Whilst the Government is not planning to rebuild or evolve the BPT, it recognises the importance of the BPT to employers that are automatically enrolling their eligible workers and it will be maintained until there is a free alternative available in the market place.

Safeguarding pension saving - The Lifetime ISA

Committee Recommendations

24. *We recommend that the Government develop a communication 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.*

Government response:

25. The Government notes the Committee's recommendation. While it is not the Government's place to advise individuals how and where to invest their money, it does recognise that it is important that people have access to the right factual information on which to base their savings decisions.

26. As outlined above, the Department plans to continue supporting automatic enrolment during implementation through a national communications campaign. In addition, the dedicated microsite at www.workplacepensions.gov.uk which has been created to support the campaign, plus pages on GOV.UK will continue to be available to those seeking more information about workplace pension saving and the benefits of doing so. This campaign focuses on automatic enrolment and there is no intention to broaden this.

27. The Government will ensure that factual sources of information on the Lifetime ISA will be available on GOV.UK prior to its launch and the Government will engage with stakeholders regarding factual content for external websites.

28. The Budget 2016 Lifetime ISA costing, certified by the OBR, did not anticipate any revenue impact from individuals opting-out of their workplace pensions in order to save into Lifetime ISAs.

29. The Government will undertake an Impact Assessment as part of due process in legislating for the new Lifetime ISA in the autumn. Beyond these, the Government does not currently intend to commission new research to predict the impact of the Lifetime ISA on individual behaviour in advance of implementation, but will continue to monitor the success of Automatic Enrolment in terms of workplace pension participation, opt-out rates, and contribution rates.

Building on automatic enrolment

Committee Recommendations

30. We recommend that as part of the 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 in to 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 employees and employer contributions 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.*

Government response:

31. As the Committee is aware, the Department has legislative commitments to review some of the specifics of automatic enrolment in 2017. These include a review of certain aspects of the operation of the National Employment Savings Trust (NEST), quality requirements for defined benefits schemes and how the certification requirements (which allow employers to use existing pension schemes to meet their automatic enrolment duties) are working.

32. In addition to these areas, we intend to use the opportunity of the Review to cover a broader range of automatic enrolment policy issues and consider how best to build on the success of the Programme. We are keen to treat this as an opportunity to look back on successes and think about future challenges. We are in the early stages of scoping the review, considering questions such as how it is best to conduct this work and what the fundamental questions that should be the focus of the Review are. Recommendations from the Work and Pension's Select Committee's Report will be considered within this scoping work as the Department recognises that these are important issues. We are working closely with external stakeholders to determine the scope of the review, and as part of this we will take into account the Committee's views on the areas that the Review should focus on.

33. It was announced in the Budget 2016 the Government will ensure that the industry designs, funds and launches a pensions dashboard by 2019. It is important that the Pensions Dashboard project remains industry-led, therefore committing at this stage to a Review of progress in 2017 may stifle innovation. The Economic Secretary is acting as ministerial champion to support industry in designing and delivering the dashboard, and the Government will continue to work with the industry to ensure they bring this technology to consumers by 2019.