Automatic Enrolment: What will the next decade bring?

June 2022

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The ABI represents over 200 member companies, including most household names and specialist providers, giving peace of mind to customers across the UK.

Automatic Enrolment: What will the next decade bring?

Building on the success of the last 10 years of Automatic Enrolment pensions policy

June 2022

Executive summary

Effective and enduring pension policy initiatives usually need both cross-party and industry consensus. Automatic Enrolment (AE) is a perfect example of this. Following recommendations of an independent commission, the policy was developed by a Labour Government, implemented by a Coalition of the Conservatives and Liberal Democrats, and continues to have the full support of the current administration, employers and the pensions industry.

Most remarkable of all is the way in which this policy has weathered the coronavirus pandemic. Few could have imagined the extent to which the State would step in to guarantee the income of people not able to work, and for the furlough scheme to guarantee the continuation of AE duties is testament to its enduring popularity. This shows that it has become a core pillar of government policy and a priority even in the gravest of emergencies.

AE has met the targets set by the Pensions Commission[1] on participation rates, but voluntary pension saving rates, a crucial assumption of the Commission in how savers would meet replacement rates, have not materialised. Over 10.6 million eligible employees from 2 million employers[2] have been enrolled into a workplace pension, including many more women, lower earners and younger people building an asset for their future. However, the average total contributions to Defined Contribution (DC) pensions are still too low, and dwarfed by private Defined Benefit (DB) pension schemes by a factor of 5 to 1.[3]

There is no roadmap for the next chapter of AE, despite 5 years having passed since its last significant review.[4] This report suggests such a plan, and what changes we think need to happen to build on the success of the policy.

By 2032 we want to see contributions rise to 12%, with either an opt-down or opt-up

[1] Pensions Commission (2006): A New Pension Settlement for the Twenty-First Century: Second Report

[2] DWP (2022): Review of the automatic enrolment earnings trigger and qualifying earnings band for 2022/23: supporting analysis

[3] ONS (2019): Occupational Pension Scheme Survey - Reported an average total DB contribution rate of 25.6% of pensionable earnings compared to 5.0% in DC schemes.

[4] DWP (2017): Automatic enrolment review: Maintaining the momentum AE Review

mechanism. This should be split evenly between employees and employers. Pension saving should start from the age of 18, and be based on the first pound a person earns. The employer and employee link creates strong incentives and should remain. A whole of market solution for small pots should also be implemented in this time, to tackle the current trajectory of 22 million pots by the end of the next decade.[5]

The current structures of AE are unlikely to work for self-employed people; instead, they need their own system which could be based on diverting increased National Insurance Contribution payments.

The cost of living crunch has shone a light on the lack of short term financial resilience of millions of households, and we expect there will be further development of emergency savings vehicles linked to employment in the next decade. However, for some, this may not be enough, which is why we believe the Government should revisit the debate about early access to pension saving in times of specific financial hardship.

Inertia has been paramount to high pensions participation, but it has also caused poor engagement. In research conducted for the ABI, over half of the 4,000 working-age adults interviewed did not think they had a pension.[6] Many consumers are simply not aware that they are saving into a workplace pension, or if they are, do not know what to do about it. The industry recognises the engagement gap and is busy planning the first Engagement Season this Autumn, working closely with Department for Work and Pensions (DWP) and the Money and Pensions Service (MaPS).

Pensions dashboards also have the potential to revolutionise engagement, but only if logging on to one becomes as ubiquitous as looking at a banking app. Pensions dashboards' functionalities must encourage this. There also needs to be good engagement, as well as a shift in the advice and guidance boundary to enable providers to better support their customers in their decision making.

The first 10 years of AE have ensured millions more people will have greater retirement provision; the next 10 years should focus on making sure this provision is adequate.

[5] Calculations updated for the Small Pots Cross Industry Co-Ordination Group, 2022, based on PPI estimates.

[6] ABI & Britain Thinks (2022): Pensions Dashboards Consumer Research – Survey data not included in report.

Chapter 1 – 10 Years In, what's worked well?

How we got here

Figure 1: Timeline

- **2022: 10-year anniversary**
- **2020: Furlough scheme launched including provision for pension contributions**
- **2019: Total contribution rate reaches 8% and the 10 millionth person is automatically enrolled**
- **2018: All employers are required to automatically enrol employees and total contribution rate reaches 5%**
- **2017: Automatic Enrolment Review recommends eligibility changes in age and the Lower Earnings Threshold**
- **2015: Charge cap is implemented limiting charges in default funds to 0.75%**
- **2014: Pensions Act 2014 creates legal mechanism for pot follows member solution to small pots**
- **2012: Largest employers begin to enrol members with 2% total contribution rate**
- **2011: Pensions Act 2011 allows for 3-month enrolment period**
- **2010: Making Automatic Enrolment Work review published by Coalition Government**
- **2008: Pensions Act 2008 creates legal duty for employers to automatically enrol employees into a pension and establishes NEST**
- **2005: Second Pension Commission report published**

The history

Policy Origins

In October 2022 it will be 10 years since the first tranche of employees were automatically enrolled into workplace pensions. AE policy does, however, have a much longer gestation period. Its origins can actually be dated back 20 years ago to the 2002 Pensions Green Paper[7] which tasked a new Pensions Commission to address the declining pensions participation rate. The subsequent reports, collectively known as the Turner Report, set the objectives and basis of AE as we know it today.

The Commission's primary objective was to tackle the continued decline in the percentage of the workforce with pension provision, beyond that offered by the State. [8] As well as a decline in individual employee voluntary contributions, the number of employers contributing had reduced from 52% in 2003 to 44% in 2005.[9]

In addition to reforms to the State Pension, the Commission recommended the creation of a low-cost, national, funded pension savings scheme into which individuals would be automatically enrolled without having to take any action themselves. This approach of "nudging" people into pension saving was "informed by behavioural analysis which showed the beneficial effects of defaulting individuals into pension saving". By "harnessing the power of inertia", the barriers to pension saving presented by human behaviour could be overcome.[10]

> **"The Commission identified that between 9.6 and 12 million individuals were under-saving, and recommended the creation of a vehicle – AE – for saving for workers who did not have access to a workplace pension. This would be one part of an overall approach to retirement income, with the State Pension and voluntary savings making up the rest."[11]**
>
> ***Automatic Enrolment Review 2017***

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[7] Government Green Paper (2002): Simplicity, security and choice: Working and saving for retirement
[8] See reference 1
[9] See reference 1 - The Employers' Pension Provision survey at the time showed that the percentage of employers making any pension provision for their employees had declined from 52% in 2003 to 44% in 2005.
[10] See reference 4
[11] See reference 4

“Today it is easy to take for granted the cross-party support AE has and continues to enjoy. The policy has only been able to succeed in weathering macroeconomic challenges like the recession and Government spending cuts because of this. Maintaining this popularity across the political divide will continue to be important to make sure future changes are implemented in the current challenging economic environment.”

ABI member

Successes

Provider market

Employers’ new AE duties stimulated the demand for a rapid expansion in Master Trust[12] pension schemes, which, as well as National Employment Savings Trust (NEST), led to a peak of 90 providers prior to authorisation. Introducing a new authorisation regime in 2018 meant many of them made a swift exit or consolidated, reducing the amount of Master Trusts by 60%; today there are only 36 operating.[13] The authorisation regime has greatly benefited consumers: high quality Master Trusts, and the subsequent consolidation of older DC schemes, saw vast improvements in the governance standards in pension schemes. Group personal pensions (GPPs) remain a very common primary pension scheme provided by employers, and similar regulatory standards have been applied to both markets.[14]

Impact to the Exchequer

Tax relief makes it cheaper for individuals and employers to make contributions. As employee contributions benefit from pensions tax relief at the employee’s marginal rate of income tax, in reality, contributions cost an individual less than the headline statutory minimum. Since the April 2022 Budget, employers can now save up to 15.05% on National Insurance contributions (formerly 13.8%) if they use salary sacrifice schemes.[15] The use of these schemes is common: half of employee DC contributions are made through salary sacrifice. [16] The Pensions Policy Institute (PPI) research commissioned by the ABI shows that for every £100 of DC pension contributions made from gross earnings or by an employer, £32

[12] A master trust pension scheme is a multi-employer pension scheme. This means they provide a workplace pension that can be used by many unrelated employers and their employees.
[13] TPR (2022): List of authorised master trusts
[14] A GPP is an arrangement made for the employees of a particular employer, or group of employers, to participate in a personal pension on a group basis, often to meet AE qualifying scheme requirements. The contract is between the individual and the pension provider, normally an insurance company.
[15] HMRC (2022): Rates and thresholds for employers 2022 to 2023
[16] PPI (2020): Tax relief on Defined Contribution pension contributions – 51% of employee DC contributions were associated with individuals who were not members of a salary sacrifice pension scheme.

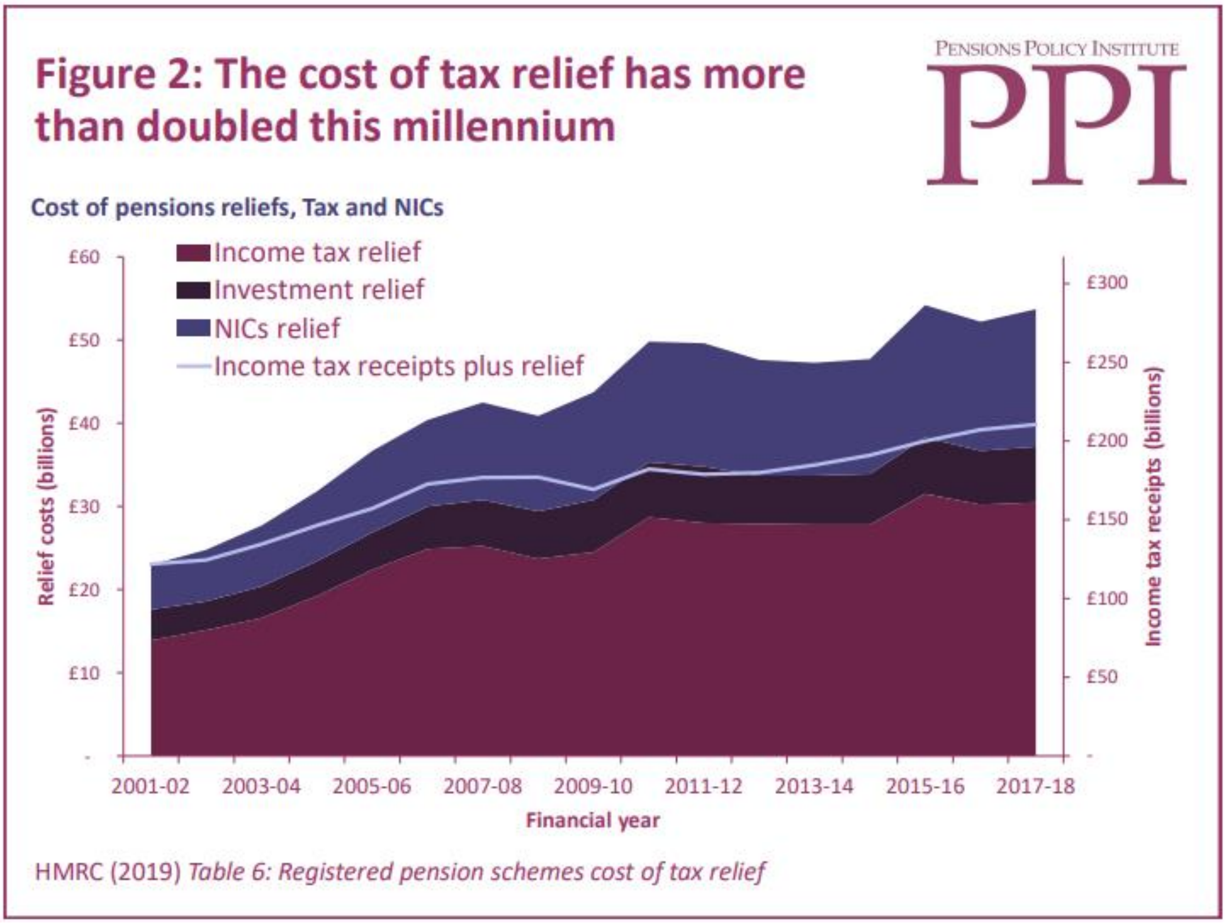
of income tax has been relieved.[17]

Despite the massive increase in the number of people saving into a pension, AE has not drastically increased the amount of pensions tax relief claimed. Indeed, Figure 3 highlights that the greatest increase in the cost of pensions tax relief occurred before AE was implemented. This is largely due to the pension saver profile under AE. In the first 10 years of AE, the proportion of pensions tax relief going to those earning less than £30,000 only increased from 23% to 24%, despite the proportion of claimants increasing from 52% to 63%.[18] It is also important to remember that most tax relief is on employer contributions, and most of these come from DB schemes.[19]

What this does make stark is the huge imbalance in who receives pensions tax relief. A basic rate taxpayer, who works and contributes continuously to a pension could get around one fifth more from their savings under the current tax advantaged system; whereas a higher rate taxpayer could receive around half as much again from their savings.[20] There also remains a massive gender imbalance in the proportion of people who benefit from pensions tax relief, though this reflects the variation of contribution levels between genders, stemming from pay disparity. 71% of tax relief on DC pension contributions go to men, who make up 69% of the contributions.[21]

[17] See reference 16
[18] See reference 16
[19] WTW (2021): Pension tax relief cost statistics – a peek under the bonnet
[20] See reference 16
[21] See reference 16

Figure 2: Pension Policy Institute's chart on cost of pensions tax relief



Expanding coverage

AE has turned the tide on decades of falling participation in pensions saving, clearly meeting the Pension Commission's aim. [22] Just before AE started, the workplace pension participation rate in the UK was 47%; after 10 years, that rate is now 79%.[23]

People now expect their employer will provide them with a workplace pension and pay into it. Over 10.6 million eligible employees from 2 million employers[24] have been enrolled into a workplace pension, including many more women, lower earners and younger people building an asset for their future. Together this has led to over £28 billion more being saved into workplace pensions in 2020, compared to 2012. [25]

A further triumph has been the unexpectedly low levels of people opting-out. Increasing opt-out rates never materialised when minimum contribution rates rose, despite significant

[22] See reference 1
[23] ONS (2022): Employee workplace pensions in the UK: 2021 provisional and 2020 final results
[24] See reference 2
[25] DWP (2022): Call for evidence launched to help people make the most of their pensions

concerns that they would. DWP's own impact assessments[26] predicted that 1 in 3 people would opt-out, but in practice it has consistently been around 1 in 10[27]. Even amongst the least financially secure (those with little or no savings), participation rates are above 90%.[28] There is a debate to be had on whether those who are financially insecure should remain in pensions saving, which is addressed in Chapter 3.

Low-cost pensions

Allowing workers to save for a pension at a low Annual Management Charge was a key recommendation of the Commission. This has been met. The average Master Trust and GPP scheme charges around 0.5%[29], well below the 0.75% cap that was introduced by the Occupational Pension Schemes Regulations[30] and Financial Conduct Authority (FCA) rules[31] in March 2015. In contrast, the Australian Superannuation model fee cap only applies for balances of less than $6,000 (c£3,000).

It is well known that employees of smaller employers, on average, pay more. Where this happens, it reflects the fixed costs providers face with onboarding any employer. The alternative, as with charging structures, is a uniform charge which entails cross-subsidies from larger to smaller employers and pots.

Recent changes to charges have continued to benefit the customer. From April 2022 schemes could no longer charge a fixed fee on pot sizes below £100, meaning that pots cannot be eroded to zero. However, charges are just one element of assessing whether a provider or scheme is providing its customers or members with Value for Money (VfM). The FCA and the Pensions Regulator (TPR) have published several papers over the years, but there is yet to be an industry-wide framework for assessing VfM in schemes. In May the Government and regulators announced their intention to consult further on a common VfM framework later in 2022.[32]

New entrants to the Master Trusts market indicate that the implementation of the charge cap, and its subsequent changes have had relatively little impact on stalling the market. Although providers' published financial results show that the margins are slim, with profits building slowly and taking many years to be realised. This suggests that competition will only increase as firms need to attract, as well as retain, customers as their pension pots grow.

[26] DWP (2008): Pensions Bill 2007 Impact Assessment
[27] DWP (2020): Automatic Enrolment evaluation report 2019
[28] IFS (2020): Automatic enrolment - too successful a nudge to boost pension saving?
[29] DWP (2021): Pension charges survey 2020: charges in defined contribution pension schemes - The average charge of 0.48% across all members is significantly below the cap.
[30] DWP (2015): The charge cap: guidance for trustees and managers of occupational pension schemes
[31] FCA (2015): Final rules for charges in workplace personal pension schemes and feedback on CP14/24
[32] TPR (2022): TPR and FCA in push to drive pensions value for money

Here for the long term

Political consensus is always going to be needed for such a long-term policy to be successful. Nonetheless, it is a rare thing for policy to go through successive governments of varying stripes without being significantly altered to suit the preferences of the ruling party. It even weathered the coronavirus pandemic, with the furlough scheme guaranteeing the continuation of employers' AE duties. It is now a core pillar of government policy and a priority even in the gravest of emergencies.

Challenges

Participation gap

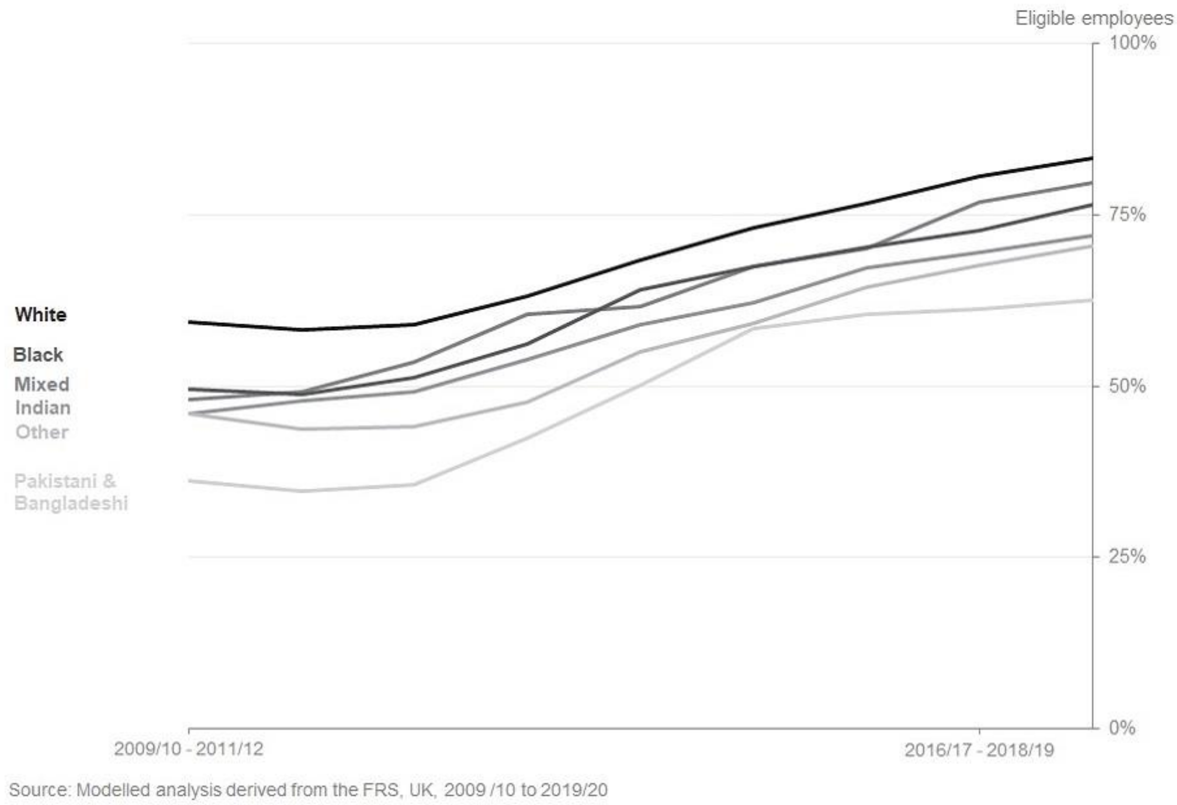
Little progress has been made in 5 years on who is eligible to for AE, and how much of their salary is covered. The Commission identified that between 9.6 and 12 million individuals were under-saving, so there remains a shortfall. [33]

While those earning less than £10,000 miss out on AE, so do people who have multiple jobs, but earn less than £10,000 in each job. Self-employed people are also not eligible, and their pension participation has dramatically decreased with only 16% of self-employed workers now saving into a private pension, down from just under half 20 years ago – this does not appear to be explained by attitudes to saving, or by the changing composition of the self-employed, or by substituting for other forms of saving or wealth. [34]

The AE participation gap is most acute amongst women[35] and ethnic minorities [36]. This is because they are more likely to have lower employment rates, or be in lower paid or multiple jobs. Any changes to the earnings trigger will therefore impact these demographics the most. 70% of people who were automatically enrolled in 2021/22 due to the continued freeze in the earnings trigger were women. [37]

[33] See reference 1
[34] IFS (2018): Retirement saving of the self-employed
[35] PPI (2020): The Underpensioned Index
[36] The People's Pension (2020): Measuring the Ethnicity Pension Gap
[37] See reference 2

Figure 3: Graph shows the ethnicity gap for pension saving among eligible employees



Proliferation of small pots

The structures of AE have led to a proliferation of small pots, as people move from employer to employer, often leaving a small inactive pension pot behind them. By the end of this year, we expect there to be more than 11 million small, inactive pots. Without change, in the next 10 years that figure will double again. [38] Small pots are a significant problem as they make it difficult for members to keep track of their pension assets (although this should be mitigated by pensions dashboards), and risk poorer outcomes for savers as they are more likely to be fully encashed[39] at retirement and may even be eroded by fees if a fixed fee is charged. They are also a significant issue for the industry, as they are not as economically viable to administer for providers. Their unabated growth risks destabilising the entire system and could lead to higher charges for all.

Poor pensions engagement

AE policy has failed to engage people in their pension saving. This is to be expected as AE is predicated on a logic of inertia, which capitalises on the individuals lack of engagement with pension saving. There have been multiple interventions from industry, Government and

[38] See reference 5
[39] Amin-Smith and Crawford (2018): Individuals' pension intentions in the new era of freedom

regulators in the last 10 years to improve this. Touchpoints in the consumer journey, including introducing simpler language, mid-life MOTs, “wake up” packs and the new Simple Annual Benefit Statements, have attempted to plug the engagement gap.

Figure 4 gives an overview of the consumer journey showing how after decades of minimal engagement in the accumulation phase, savers are confronted with important decisions as they reach retirement. After years of development, legislation is now in place to compel schemes and providers to share data with pensions dashboards[40], and a clear staging timeline for their delivery is due to be finalised. Many providers have also been investing in developing their digital offering with pension apps that allow for a wide range of actions, from simply updating customer details, consolidating pots, choosing investment funds and expressing shareholder voting preferences.

Figure 4: Overview of AE consumer journey

Age 22 onwards:		Age 50 onwards:	Age 55 onwards:	
Automatic Enrolment	Accumulation	Approaching Retirement	Accessing Pension	Decumulation
Auto-enrolment and re-enrolment communications	Annual Benefit Statements	Wake-up packs	Retirement risk warnings	Annual Benefit Statements in decumulation
	Annual reports on VfM		At Retirement Trustee Communications	
	Annual Chair Statements		Drawdown & UFPLS: Key features illustrations	

Pensions adequacy

The Pensions Commission identified that for most individuals, the State Pension, supplemented by AE contributions of 8% of relevant earnings, would deliver around half the level of savings needed to secure an adequate income in retirement. It assumed that the remaining gap in pensions savings levels would be bridged by additional voluntary saving on top of AE contributions. [41]

Unfortunately, the reality for many is that this extra saving has not materialised. While disengagement has ensured opt-outs remain low, the impetus for people to voluntarily contribute more than the statutory minimum is not there for millions of people. Many

[40] Pensions dashboards will enable individuals to access their pensions information online, securely and all in one place.
[41] See reference 4

employers do offer contributions beyond the legal requirement, although this has mainly been limited to those that already offered pensions prior to AE. Businesses who did not previously offer this benefit were more concerned about ensuring they could cope with the increased cost of fulfilling AE duties.[42]

Stopping the increase in contribution levels at 8% in 2019 without any timeline of further increases, or even whether there might be any, has given the wrong message that this level is adequate for most people. Furthermore, because the lower earnings qualifying threshold (LET) within AE remains at £6,240, the quoted 8% of earnings contributed is, in effect, much less. For many lower and middle-income workers, a significant proportion of their salary is below the LET and therefore does not count as qualifying earnings. The momentum that had been built up in the earlier years of the AE roll out has stalled, and the challenge now is whether, when and how to increase pension contributions rates at a time when the country is still recovering from the pandemic and struggling with rising inflation and living costs.

The rapid move from private DB to DC will impact future adequacy in retirement unless contributions increase – there is ample evidence that the status quo will mean insufficient retirement incomes for many.[43] In 2018, the average total contributions to private DB pension schemes dwarfed those in private DC schemes, by a factor of 5 to 1.[44] The average contribution rate to a DB pension is 25.6% of pensionable earnings, with employees paying in 6.4% and employers paying in 19.2%; this is significantly more than what people experience in DC pensions.[45] For savers' retirement expectations to be met, DC contributions need to rise beyond the current AE minimum, emulating the gradual contribution rises in the Australian Superannuation system.

[42] DWP (2017) Automatic Enrolment Review: Analytical Report
[43] Resolution Foundation (2021): Building a Living Pension
[44] See reference 3
[45] See reference 3

Chapter 2 – 10 Years On, how to get to where we need to be

Figure 5: ABI proposed timeline

2031: Minimum employer and employee contributions rise to 6% respectively, bringing total contributions to 12% (with opt-up/opt-down mechanism in place)

2028: Pensions Bill to pass with changes to minimum contributions, starting with a rise in employer contributions at 5%, bringing total minimum contributions to 10%

2025/6: Pensions Bill to pass with following provisions:

- **Pensions officially saved from the first pound earned as lower qualifying earnings threshold reduced to £0**
- **18-year-olds automatically enrolled into pension saving**
- **Small pots solution**

2025:

- **Lower qualifying earnings threshold reduced to £1**
- **Net pay anomaly top ups paid for the first time**

2024:

- **Lower qualifying earnings threshold reduced to £2,080**
- **Large schemes due to make data available to pensions dashboards**

2023: Lower qualifying earnings threshold reduced to £4,160

2022: First Engagement Season to be held this Autumn

How we get to where we need to be

Clearly there is a lot of work to do in the next 10 years to ensure AE can rise to the challenges that remain. However, the ecosystem that has been established in the last decade is a national asset on which we can continue to build.

What should happen in the next 5 years

Value for Money

The FCA and TPR recently issued a feedback statement on VfM in DC pension confirming that the regulators will further develop common measurements for assessing VfM. These are expected to better enable industry professionals to further compare DC schemes. There is broad industry consensus that a common approach would be useful to compare investment performance, service standards and costs and charges.

The FCA, TPR and DWP will consider what would need to be disclosed, and how. The ABI supports a common framework and a joined up regulatory approach to determining VfM. This framework should build on existing concepts[46] that consider VfM through three lenses: investment performance, customer service and costs and charges. Including good member communication is also crucial to supporting an effective customer journey that encourages good decision making.

This joint work is encouraging, but needs to ensure that it remains aligned, and that new requirements are focused on what is most likely to improve member outcomes. Any new data requirements should be balanced and clear on their purpose. There has been a tendency to conflate the different purposes of disclosure. Detailed, technical documents such as Chair's statements and Independent Governance Committee reports benefit from independent professional scrutiny; their primary aim should not be to attempt to use them to engage customers, as there are other tools at industry's disposal to deliver that.

Recommendation:

- Government should ensure Value for Money frameworks are aligned across workplace pension schemes and are focused on improving member outcomes.

[46] FCA (2021): Assessing value for money in workplace pension schemes and pathway investments: requirements for IGCs and GAAs (PS21/12) is one such example.

Engagement

Poor engagement could mean decisions to save more into a pension are deferred, or multiple pots from different jobs remain unconsolidated. At worst, pots can be forgotten and never claimed. Crucial decumulation decisions at retirement will be much harder as a individual's basic understanding is lower than it could have been had they been engaged earlier on in the journey.

In research conducted for the ABI, over half of the 4,000 working-age adults interviewed did not think they had a pension.[47] Given the sample size and its representativeness, this points towards a large number of consumers being unaware that they are in fact saving into a workplace pension. This suggests that engagement work so far has not cut through on the scale needed.

The industry recognises the engagement gap and the problems that may arise because of it and is busy planning the first Engagement Season this Autumn, working closely with DWP and MaPS. This will be at least a three year campaign, focusing on improving people's understanding of pensions, and helping them understand where their pensions are, and what they might do with them.

Consumers are used to managing their money through online banking, and they now have high expectations of digital engagement with their finances. Pensions dashboards will be key to driving engagement in the years to come, but it will require all stakeholders to promote them so that they become as ubiquitous as banking apps. The promotion of pensions dashboards, together with wider engagement initiatives, provides an important opportunity to wake people up to the fact that they are saving into a pension at all, and that they might need to make decisions related to it.

By being able to see all their pension pots in one place for the first time on pensions dashboards, consumers will know where their pensions are, and their size. However, the most important benefit that they will offer is to help savers take important action, whether this is encouraging pot consolidation, increasing their contributions, or updating who their money goes to when they pass away. This potential will only be met if pensions dashboards include functionalities and tools that help consumers make more informed choices about their retirement plans.

Beyond these more immediate aims, there is a growing desire among the workforce to use their pension funds to invest in Environmental, Social and Governance (ESG) issues.[48] For many people, their pension will be one of, if not the largest asset they own. Creating a sense of ownership of their pension and choosing how it is invested can be an incredibly powerful incentive to engage them with their pension pot. The Make My Money Matter research that

[47] See reference 6
[48] ABI (2021): The Role of Pensions in Driving ESG Investment

shows switching to a sustainable pension could be 21 times more powerful in the fight against climate change than giving up flying, becoming vegetarian and choosing a renewable energy supplier combined, is an example of this.[49] This is a uniquely positive story about pensions that needs to be told.

The increase in the number of people with DC pots creates a corresponding challenge to ensure they are well informed and supported to make the best decisions for themselves when it comes to growing their savings and accessing them. But over half – 52% – of all pension pots are accessed without either impartial guidance from Pension Wise or regulated financial advice[50], and only 20% of 50-64-year-olds have spoken to a financial adviser when accessing their pension.[51] This should not come as a surprise as polling commissioned by the ABI shows nearly three-quarters (72%) of people say they will not pay for financial advice.[52]

Advice and guidance policy needs to be re-examined to make sure that it is helping consumers to get the best outcomes in retirement. As part of this re-examination there should be a shift in the boundary to allow more tailored guidance and simplified advice – this means changes to the FCA's perimeter guidance and potentially a new regulatory permission. We are encouraged by recent discussions with the FCA, as well as by DCMS correspondence with the Work & Pensions Committee indicating willingness to ensure the Privacy & Electronic Communications Regulations do not unduly limit providers' ability to engage customers in pension savings decisions.

Recommendations:

- Industry to continue to champion pensions dashboards, pushing for the inclusion of tools and functions that will help consumers to understand and make more informed choices about their retirement funding, such as pot consolidation.
- Government and regulators to re-examine advice and guidance policy to make sure that it is helping consumers to get the best outcomes in retirement. This should include looking at allowing more tailored guidance and simplified advice through changing the FCA's perimeter guidance and potentially a new regulatory permission.

[49] Make My Money Matter (2021): Pension fund carbon savings research: A summary of the approach
[50] ABI (2021): Future proofing the freedoms
[51] Social Market Foundation (2022): A Guiding Hand
[52] ABI: ABI calls for financial advice and guidance overhaul as polling reveals 72% of people will not pay for advice

Self-employed saving

Self-employed workers pose a more complicated pension saving challenge, partly because they are not a homogeneous group and have varying and sometimes complex needs. Many workers within the gig economy do not work for themselves in a meaningful sense but instead are wholly reliant on earning income by providing a service via a platform. The Supreme Court ruling that Uber drivers are entitled to pension provision is an important precedent, and the ABI and its members support TPR's encouragement for similar companies to start enrolling those who work for them into a pension. Uber's proposal for an industry-wide scheme also warrants further consideration, as drivers (or equivalents in other industries) operating across multiple platforms are more likely to hit the earnings trigger with their combined income.

People who have started their own business or are self-employed as sole traders or company directors should be incentivised to save for retirement through a pension. There are, however, substantial differences in cash flow between employed and self-employed workers, and there is not currently an equivalent of an employer contribution that could be leveraged. This means that simply expanding AE to self-employed people is not an option. Instead, we believe the government should consult on the possibility of using Class IV NICs as a substitute for an employer contribution. This should follow the work already being done between MaPS and DWP which looks at ways to prompt the self-employed to further guidance about pensions saving.

Adequate pension saving today will reduce the pressure on benefit payments required in the future, so it is in the government's interest to ensure self-employed people are sufficiently saving for retirement. Research should be carried out as to whether it would make sense for self-employed people paying Class IV NICs to benefit from this money being directly contributed towards their retirement savings. One idea proposed to fund pension saving is to increase Class IV NICs to 12% for all self-employed people but divert 3% of this to a pension pot if individuals also contribute to into a pension.

Recommendations:

- Industry, regulators and Government to continue to encourage companies to start enrolling those who work for them into a pension.
- Government to consult on using Class IV NICs as a substitute for an employer contribution.

Net pay anomaly

Some people who are automatically enrolled do not pay income tax as they earn less than the personal allowance. The current difference between the earnings trigger and the personal allowance is material, at £2,570. There are different mechanisms for how schemes claim the pensions tax relief on contributions. One method, in net pay arrangements, means that relief is given automatically at a person's marginal tax rate. However, where a person does not pay income tax, no relief is applied. This means some people are missing out on pensions tax relief on their contributions, making it more expensive for them to save into a pension.

After much lobbying by the ABI and other industry stakeholders, the government has now committed to addressing the net pay anomaly by 2024/5. However, the proposed solution requires people to actively claim the relief, which as we know from the success of using inertia, is not likely to encourage take up. This relief will also only go to the pension if the person proactively puts it in. It may be that in most cases, people choose to keep the money for today. More clarity is needed to understand how consumers will apply for the bonus payment which is aimed at making up for the loss of tax relief, and how this claim will be treated when calculating a person's benefits eligibility.

Recommendations:

- Government should publish further information on how the solution to the net pay anomaly will work, and how people should claim the relief, and its impact on means-tested benefits.
- Industry to continue working with the government to support the implementation of the bonus payment system, and consider communications to relevant customer/members of the availability of the relief.

AE for 18-year-olds and removing the lower qualifying earnings threshold

The Government needs to progress its commitment to implement the 2017 review changes to the eligibility criteria of AE. The ABI and its members fully support the recommendations, but we want to see a concrete timetable outlining when these changes will be made. We know from the first roll out of AE that the pensions industry, employers and payroll providers will need a long lead time to prepare. It will be important to sequence these policy changes in a logical way to avoid a further proliferation of small pots. The LET should change first, as 18–21-year-olds are more likely to have low pay and change employer more frequently. Following this, a small pot solution should be put in place as 18-year-olds are enrolled.

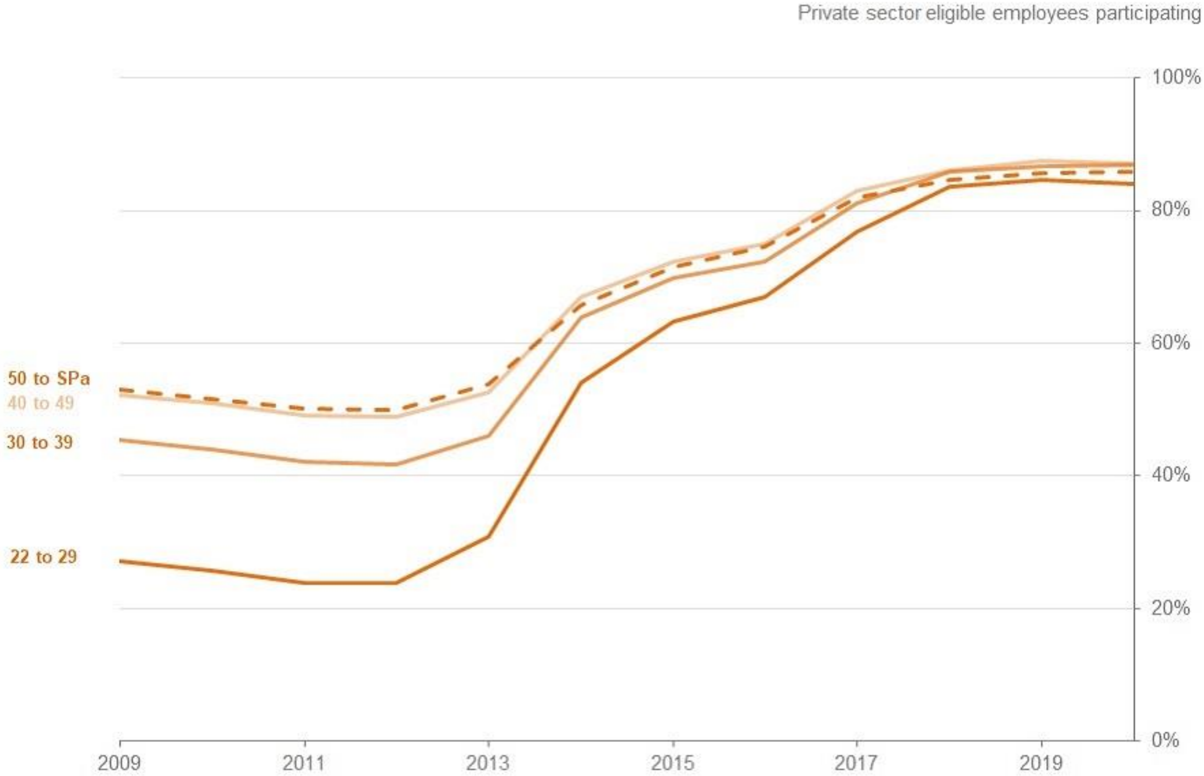
Changing the rules so that people are automatically enrolled from the age of 18, rather than 22, and saving from the first pound earned will require primary legislation. However, there is no such barrier to publishing a phased timeline of doing so. Secondary legislation could be used in the interim to reduce the lower earnings threshold down to £1 until a Pensions Bill can be introduced. We propose that year on year, the lower qualifying earnings threshold is lowered, starting in 2023/24 to signal within this Parliament that the 2017 review recommendations will be acted upon. This will be especially beneficial for the 30% of employees who only receive pension contributions on band earnings (earnings on salary over £6,240 and under £50,270 currently). The DWP estimated that removing the lower qualifying earnings threshold would create an additional £2.6 billion in annual pension savings.[53]

According to figures by the think tank Onward, lowering the age that workers can be automatically enrolled to 18 will bring up to 1 million additional young people into workplace pension schemes. Their figures point to the additional four years of pensions saving resulting in an extra £20,267 more for individuals in retirement.[54]

Figure 6 below shows the huge impact that AE had on participation by people aged 22-29. The impact would be even greater among those aged from 18-21 - not only in participation, but the lifetime impact of starting to save earlier.

[53] See reference 43
[54] Onward (2022): Levelling up pensions to boost savings by £2.8 trillion

Figure 6: Graph showing AE participation by age



Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2020

Upper qualifying earnings threshold

We support keeping the current upper qualifying earnings threshold (UET) rules in place. If the UET were to be abolished, it would make all earnings without limit pensionable, including overtime and bonuses which do not normally count as pensionable income. Because of the rules on equivalent contribution structures within the AE certification regime, a consultation on changes to the alternative certification regime would be required before the UET could be removed. Given our focus on improving adequacy for all savers, in particular for low and middle earners, we will remain focused on the need to reform the LET.

However, with inflation rising to historic levels, we also do not want savers to miss out on pension contributions, so recommend that UET rises yearly in line with earnings.

Figure 7: Proposed decrease in lower earnings threshold initially down to £1, then £0 following primary legislation in 2025/26

Year	Personal allowance	National Living Wage (workers aged 25+)	Lower qualifying earnings threshold	Minimum statutory contribution rate
2022/23	£12,570	£9.50	£6,240	8%
2023/24	£12,570	£9.95*	£4,160	8%
2024/25	£12,570	£10.42*	£2,080	8%
2025/26	£12,570	£10.92*	£1	8%
2026/27	TBC	£11.44*	£0	8%
2027/28	TBC	£11.98*	£0	8%

*Estimated based on average increase in NLW since 2016/17

Recommendations:

- Government to publish a timeline to reduce lower qualifying earnings threshold in stages down to £1 through secondary legislation over the next five years, followed by its formal removal to £0 in the next Pensions Act.
- Government to pass legislation lowering the age of AE eligibility down from 22 to 18 in the next Pensions Act.
- Government to keep the upper qualifying earnings threshold in place and increase it annually in line with earnings.

Small pots

The Small Pots Co-Ordination Group, a cross-industry group of key stakeholders set up by the ABI and PLSA, continues to evaluate the best model for solving the proliferation of small pots. As part of this work, the group will soon publish its second report, which further builds on the evidence base.

Our view remains that it needs a solution across the automatic enrolment market, which requires legislation, with the appropriate governance, funding and a liability model to maintain consumer trust. Legislation will be critical in making sure contract-based schemes, as well as trust-based ones, can easily transfer small pots within an automated solution, without individual member consent. The legislation allowing for a solution to the small pots problem should be passed in the same Pensions Act as the changes to AE eligibility.

Expanding the eligibility of AE without a small pots automatic transfer solution in place will only exacerbate the issue. It therefore makes sense that legislation to bring in the small pots solution, and compulsion for providers and schemes to participate, should be in the same

Bill as the AE eligibility expansion.

Recommendations:

- Industry and the Government to implement findings of the Small Pots Co-Ordination Group's second report.
- Government to include the small pots solution legislation in the same Pensions Act with AE eligibility changes. This legislation should also enable contract-based providers to carry out non-consented transfers.

Expanding coverage and the relationship between employer and employee contributions

There remain millions of people who are not automatically enrolled into a pension, and could still be under saving. Keeping the earnings trigger frozen at £10,000 a year since 2014/15 is gradually bringing more people in, as this means that in real terms the trigger has been decreasing for the past eight years. With record inflation forecast to continue in the short term, this will continue to increase the amount of people who become eligible for AE each year.

There are calls for all workers, regardless of income, to be eligible for AE. This would address the issue of people with multiple part-time jobs earning less than £10,000 in each job. However, this would not be without risk.

We have seen that inertia is incredibly powerful. Taking away or lowering the earnings trigger could result in people whose needs will most likely be met by the benefits system saving into a private pension, when they are less likely to be able to afford to forgo part of their salary today.

Another consequence of reducing or removing the earnings trigger would be an increase in the amount of small and micro pots held by providers. Therefore, any reduction in the earnings trigger should not take place until a solution to the small pots problem has been implemented and is up and running.

Instead of reducing or removing the earnings trigger at this stage, multiple job holders, and single jobholders earning less than the £10,000 trigger should be incentivised to save into a pension on a voluntary basis. As a start, industry and policy-makers need to increase awareness among non-eligible jobholders that they can opt-in to pension saving and will receive employer contributions. Figure 12 shows that the number of non-eligible private sector employees participating in pensions saving has doubled from a very low base since AE was introduced, but it still remains low. Given the plan to remove the lower earnings threshold, savers opting in will benefit from pension savings from the first pound earned. This means for a worker earning £10,000 a year, a much larger percentage of their pay will qualify for pension contributions.

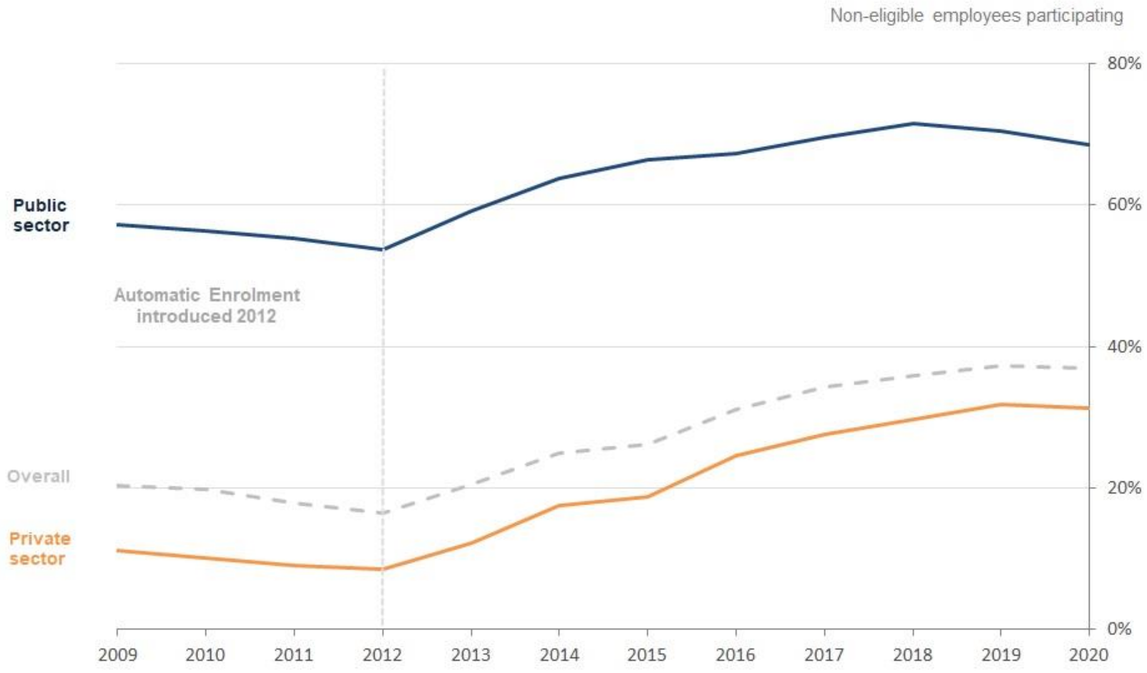
However, we do recognise this is unlikely to drive significant changes in behaviour, given the learnings on inertia. Therefore, to increase the incentive, rules should also be strengthened so that any entitled worker (see Figure 8) who chooses to opt-in to a workplace scheme will also receive employer contributions.

Employer contributions are a crucial element of a saver's overall pension. They are often viewed as a form of deferred salary. There is, therefore, an argument that for those who choose to opt-out of pensions saving, and thereby losing the corresponding employer contribution, are opting out of part of their pay. We have in the course of this work considered whether there is benefit in decoupling the employer and employee contribution. On balance, our view is that this would in effect risk creating a new lower de facto contribution rate. Continuing employer contributions regardless of whether employees paid into a pension would reduce an individual's sense of ownership and create an incentive to opt-out.

Figure 8: Table further explaining AE eligibility

Eligible Jobholders	Non-Eligible Jobholders	Entitled Workers
Aged 22 to state pension age, earns £10,000 a year or more.	Aged 16-21 or state pension age to 74, earns £10,000 a year or more. Or aged 16 to 74, earns between £6,240 and £10,000 a year.	Aged 16 to 74, earns less than £6,240 a year.
Qualify for automatic enrolment, employer must contribute to their pension pot.	Can opt-in if they ask. If they do opt-in, employer must contribute to their pension pot.	Can join the pension scheme if they ask. If they join, employer does not have to make contributions to their pension pot.

Figure 9: Graph showing the increase in non-eligible employees participating in pension saving in the private and public sectors



Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2020

Recommendations:

- Government to keep the earnings trigger for automatic enrolment frozen at £10,000, at least until the LET is removed and a solution to the small pots problem is in place. Any reduction to the earnings trigger should include an assessment of the benefit of private pension saving for those whose needs will be met by the State Pension.
- Government, industry and employers should improve awareness among non-eligible jobholders of the possibility of opting in and the amount of employer contributions they will receive once the lower earnings threshold has been removed.
- Government should give entitled workers the right to receive employer contributions if they choose to opt-in to pension saving.
- Government should retain the link between employer and employee contributions.

What should happen after 5 years

Increasing minimum pension contributions

One of the foundations for the success of AE has been its long-term, consensus-driven, evidence-based approach. This is needed again now, to help inform the key decisions required to ensure people have sufficient income in retirement. There are trade-offs with the buy-in of employers, the cost to the Exchequer, and critically, the ability of people to save, balancing long-term and short-term savings. The government must take the lead on making these decisions, but there is evidence of an emerging consensus[55, 56] around what an adequate income looks like and how to get there.

Reducing the lower qualifying earnings threshold down to £0 will boost both the employer and employee contributions to savers' pensions, but this alone is not enough. Within the next 10 years we need to see contribution rates increase again. Prior experience suggests that we cannot rely on this increase being driven by voluntary contributions; it must be driven by the statutory minimum. Just as when the AE minimums increased from 3% to the current 8%, it will be important to set out the changes far in advance, chiefly so that employers can account for the extra cost.

By 2032 we would like to see contributions rise to 12%. But given concerns about potential over-saving, and conflicting financial pressures, particularly considering the increasing cost of living, more flexibility is required.

We propose two ways that the government could legislate for an increase to the minimum contribution rate in a way that is not all-or-nothing. One option is to raise the total rate to 12% with the built-in flexibility to opt-down if this rate is unaffordable for people, allowing more savers to stay automatically enrolled. Another option is to increase the rate to 10% with an increased incentive to opt-up to 12% on a matching basis with employers.

We also support a rebalancing of contributions, so they are split evenly between employees and employers. There is an emerging consensus[57] for returning to a 50/50 split of pension contributions as it is fairer, and reflects the more generous employer contributions seen internationally[58]. This means that workers will only face a 1% increase in the 2030s if total contributions are raised to 12% or no increase if contributions are raised to 10%.

For employers, this would mean an increase of 2% from 2028/29 and a further 1% in 2031/32 if the method of 12% with an opt-down is chosen. While this increase will be felt by employers, in the long run the policy allows companies to adjust their overall benefits packages accordingly and budget many years in advance of the increase. Engagement with

[55] PLSA (2022): Quarter of savers believe their current level of pension saving won't be enough to live off in retirement
[56] Aviva (2016): Aviva calls for 12.5% auto-enrolment contributions
[57] See reference 56
58 Actuarial Post (2017): International comparison of employers pension contributions

employers throughout this process will be critical, along with analysis of the wider impacts of a change in employer contributions on pay and benefits.

It is worth noting that in Australia, which has a more established DC system, the employer contribution alone is already 10% and is set to increase to 12% from 2025.[59] Whether the UK Government adopts a policy of total contribution rates set at 12% with added flexibility, or one set at 10% with a greater incentive to opt-up, this is clearly not the end of the journey for AE's development. As the UK DC market further matures and life expectancy continues to rise, it may become necessary for further increases in decades to come.

The lesson from AE so far has been that if we want to ensure the majority of people are saving more for their retirement, we cannot solely rely on voluntary action or engagement to get there. Engagement will still be important however, especially to make sure those on higher incomes save beyond the minimum contribution rates, as we know that for this group neither 12% or 10% is likely to be enough to meet their expected replacement rate in retirement.

Auto-escalation for pension contribution rates, during increases in salary or as savers get older, could be another powerful tool to get people to save adequately for retirement. However, this will not work for everyone – weak earnings growth while AE has been in operation means that it would have made no difference for many people. As such, there is not a strong case to legislate for it. Instead, employers should be encouraged to implement auto-escalation practices into their employee benefits packages alongside other incentives such as contribution matching.

The policy development should include behavioural research to determine which contribution increase approach is most appropriate. Although we have good data on opt-out rates so far, further increasing employee contributions may lead to different behaviours. It is also imperative to make sure that the increases are affordable and do not result in more people opting out of pensions saving altogether.

The increasing cost of living means it is a difficult time, both economically and politically, to be advocating for higher rates of saving. Instead, building consensus on the necessary next steps for contribution increases, and providing a clear roadmap for the steps towards them should start now.

59 AustralianSuper (2022): The superannuation guarantee and why it's important

Figure 10: Suggested increase in employee and employer contributions to reach 12% in the next 10 years

Year	Employee contribution rate	Employer Contribution rate	Total contribution rate
2022/23	5%	3%	8%
2023/24	5%	3%	8%
2024/25	5%	3%	8%
2025/26	5%	3%	8%
2026/27	5%	3%	8%
2027/28	5%	3%	8%
2028/29	5%	5%	10%
2029/30	5%	5%	10%
2030/31	5%	5%	10%
2031/32	6%	6%	12%

Recommendations:

- Government to raise total minimum pension contribution rates within the next 10 years, either to a total of 12% with the flexibility to opt-down, or a total of 10% with an incentive to opt-up to 12% on a matching basis with employers. Both solutions should change minimum contribution rates to be split evenly between employer and employees.
- Government and/or industry should conduct behavioural research to determine which approach is most favourable and make sure that the increases are affordable and do not result in more people opting-out of pensions saving completely.
- Government should not legislate for auto-escalation with salary increases. Instead, employers should be encouraged to implement auto-escalation practices into their employee benefits packages alongside other incentives such as contribution matching.

Chapter 3 – Making the wider pensions ecosystem work for AE

The policy initiatives shaping pensions beyond AE

Beyond the immediate choices that shape how AE works, there are wider policies that have an impact on pensions policy and the ability to make further changes.

Emergency saving

The UK population's low financial resilience is well known; the FCA's 2021 Financial Lives Survey[60] found a sharp increase in the number of people who became financially vulnerable during the pandemic. Around 11.1m working age people are considered to be in a "financially struggling" or "squeezed" group and not saving regularly, 45% of people in these groups have less than £500 in savings.[61] 29% of adults reported that their household could not afford an unexpected, but necessary, expense of £850.[62]

While there are initiatives that are currently available in this space, their use is not widespread. The Government's Help to Save scheme aims to support those in receipt of Universal Credit or a Working Tax Credit save up to £50 a month, with every £1 saved receiving a Government bonus of 50p, over 4 years. The latest statistics show that 264,000 people have opened an account.[63] Similarly, there is NEST Insight's "Jars" scheme, where a liquid 'emergency savings' account is linked to a traditional DC pension pot, on an opt-in basis, rather than by default.[64] This opt-in basis has meant individuals participating in the trial remain low.

An opt-out emergency savings vehicle linked to employment may emerge in the next 10 years. However, contributions will likely be based on a very low percentage of salary, which means that in reality, funds will take time to accumulate for those low earners who will be most in need of it; and depending on its design, may result in a new small pots challenge. The ABI supports the work of NEST Insight in its trials to develop this proposition, as it could play a key role in helping with rainy-day savings.

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[60] FCA (2021): Financial Lives 2020 survey: the impact of coronavirus
[61] Money and Pensions Service (2021): UK Strategy for Financial Wellbeing
[62] ONS (2022): Impact of increased cost of living on adults across Great Britain: November 2021 to March 2022
[63] HMRC (2021): More than 264,000 Help to Save accounts opened
[64] NEST Insight: Liquidity and workplace pensions: sidecar savings trial

Early access in times of financial hardship

Even if an opt-out emergency savings vehicle is introduced in the next decade, these savings are unlikely to be enough to cope with some specific circumstances of financial hardship. Our members frequently receive calls from customers who are desperate to access money from their pension savings as they face acute financial hardship. Examples have included attempting to access money to pay for critical overseas medical care for themselves or a loved one, and trying to avoid losing their home to mortgage foreclosure. The Treasury consulted on early access in 2010[65], but decided not to move forward due to limited evidence suggesting it would have a positive impact and the extensive reforms already underway, including AE. Although not the intention of a pension product, there are extreme cases where the use of these funds could be life-changing for their owners. It could also make pensions a more attractive investment vehicle to people who may want or need flexibility. It may also encourage people to increase contributions, easing the fear of money being locked away. This is particularly the case for self-employed people.

Financial hardship is not currently recognised as a legitimate reason for accessing a pension before the age of 55. It is therefore deemed an unauthorised payment and typically results in a 55% tax charge from Her Majesty's Revenue and Customs (HMRC); most pension providers do not allow unauthorised access for this reason. People determined to access their pension savings are left with the option of transferring to an unregulated provider, putting them at a greater risk of being scammed.

There are, of course, challenges to achieving these objectives. In the course of this work, we have engaged with counterparts in many international territories which allow early access and experiences have been mixed. A consistent definition of financial hardship in tax legislation would be critical, as well as clear guidance on what, if any, evidence people would have to present of financial hardship so they can access pension funds. Rules governing access would need to specify the periodicity, frequency and value allowed to be taken, and in what circumstances. Options could include a total that can be accessed per year, a capped percentage for each individual pot or a triggering event with implications on future tax relief similar to the rules around Money Purchase Annual Allowance.

Further consideration would need to be given to the consequences of early access, including eligibility for means-tested benefits, and its impact on bankruptcy protection. Rules on recycling would also need to be reviewed to ensure customers are not reinvesting the money taken out and benefiting from tax relief again. Finally, communications would need to be

[65] HM Treasury (2010): Early access to pension savings

very clear, with warnings about the consequences, not least the implications on future retirement income.

Given the potential benefit of introducing such a policy, and the challenges that would need to be weighed up and worked through, we recommend the government launch a green paper looking at whether people should be able to access their pension savings before the Normal Minimum Pension Age (NMPA) if they face significant financial hardship that reasonably outweighs any loss to their future retirement income.

Expanding the list of permitted reasons for authorised payments to include specific circumstances of financial hardship is how this change could be made. This reform, if introduced, should coincide with changes to AE policy, specifically the raising of minimum pension contributions. This would ensure more people are saving enough for their retirement while also allowing access to emergency funds in the event of significant financial detriment.

Recommendation:

- Government should launch a green paper investigating early access to pension saving in the case of significant financial hardship. This should consider expanding the list of permitted reasons for authorised payments from pension savings to include financial hardship. Any reform should coincide with the increase of minimum pension contributions.

Consistency, decumulation and tax rules

A further challenge with pension policy is that the multiple public bodies responsible are not always consistent and joined-up. This results in confusion for customers, for as far as they are concerned, pensions are pensions, regardless of the different legal frameworks underlying them. Furthermore, the inconsistency creates an unnecessary compliance burden for industry.

Key decisions about the future of AE will ultimately be made by HM Treasury rather than DWP. Dual regulators often implement slightly different regulations at slightly different times. This has been most apparent in DC decumulation in recent years, as we have highlighted in other reports and was reiterated by the Work and Pensions Committee. The DWP's Call for Evidence on DC decumulation[66] is an opportunity for DWP, TPR and FCA to align interventions including retirement communications and investment pathways. It also

[66] DWP (2022): Helping savers understand their pension choices

offers scope to explore new policy ideas to encourage early engagement in retirement decisions, and provide solutions beyond investment pathways for those who do not engage.

The ABI supports the recommendation by the Work and Pensions Committee for TPR and FCA to always consult jointly on matters of shared interest.

These concerns about consistency are also highly relevant to tax rules, as certainty is valued by savers and employers as well as the industry. A recent area of concern was the change to the NMPA, which, we believe, bakes in complexity for decades to come because several million savers will have a protected pension age of 55. It unnecessarily complicates pensions communications and decisions by savers and trustees – including transfers of individual small pots.

Similarly, the Money Purchase Annual Allowance continues to limit people's ability to rebuild pension savings after accessing a pot early, often out of necessity due to unemployment or ill health. Aimed at preventing recycling of tax-free cash, by limiting tax relief to contributions up to £4,000 after accessing a pension, it hits many ordinary savers.

This report has not considered the scope for a major reform of pensions tax relief, but any future change should take full account of the impact on pensions policy goals; and must consider both DB and DC relief.

Housing and means-tested benefits

The Pension Commission used replacement rates based on owner-occupation of housing, which reflects the current trend where 74% of people aged 65 and over in England own their own home outright. But this will change in future, as more and more DC pension savers are projected to be renting in retirement. [67] The implications for AE are clear: unless something changes, savers will need to accumulate more to cover the cost of rent in retirement; otherwise, they will need to rely on housing benefit. In that event, they may find that the net benefit of saving into a pension is reduced, and may ultimately feel that it was not worthwhile. It is difficult, or even impossible, to make an informed decision about saving today, based on assumptions about housing tenure decades in advance. Therefore, savers need greater confidence that saving will be in their interests.

These challenges are much broader than pensions – the interaction of private and state provision reflect our experience in protection and social care, where the means-tested benefit system can disincentivise people from saving or insuring themselves. By the same token, the solutions also need to look beyond pensions, and may need to encompass housing supply and changes to the benefit system. At a minimum this means Government departments needing to work together to resolve interrelated long-term issues.

[67] PTL (2021) Horizon scanning – DC (in)adequacy

Summary of recommendations

1. Government should ensure Value for Money frameworks are aligned across workplace pension schemes and are focused on improving member outcomes.
2. Industry to continue to champion pensions dashboards, pushing for the inclusion of tools and functions that will help consumers to understand and make more informed choices about their retirement funding, such as pot consolidation.
3. Government and regulators to re-examine advice and guidance policy to make sure that it is helping consumers to get the best outcomes in retirement. This should include looking at allowing more tailored guidance and simplified advice through changing the FCA's perimeter guidance and potentially a new regulatory permission.
4. Industry, regulators and Government to continue to encourage companies to start enrolling those who work for them into a pension.
5. Government to consult on using Class IV NICs as a substitute for an employer contribution.
6. Government should publish further information on how the solution to the net pay anomaly will work, and how people should claim the relief, and its impact on means-tested benefits.
7. Industry to continue working with the government to support the implementation of the bonus payment system, and consider communications to relevant customer/members of the availability of the relief.
8. Government to publish a timeline to reduce lower qualifying earnings threshold in stages down to £1 through secondary legislation over the next five years, followed by its formal removal to £0 in the next Pensions Act.
9. Government to pass legislation lowering the age of AE eligibility down from 22 to 18 in the next Pensions Act.
10. Government to keep the upper qualifying earnings threshold in place and increase it annually in line with earnings.
11. Industry and the Government to implement findings of the Small Pots Co-Ordination Group's second report.
12. Government to include the small pots solution legislation in the same Pensions Act with AE eligibility changes. This legislation should also enable contract-based providers to carry out non-consented transfers.

13. Government to keep the earnings trigger for automatic enrolment frozen at £10,000, at least until the LET is removed and a solution to the small pots problem is in place. Any reduction to the earnings trigger should include an assessment of the benefit of private pension saving for those whose needs will be met by the State Pension.
14. Government, industry and employers should improve awareness among non-eligible jobholders of the possibility of opting in and the amount of employer contributions they will receive once the lower earnings threshold has been removed.
15. Government should give entitled workers the right to receive employer contributions if they choose to opt-in to pension saving.
16. Government should retain the link between employer and employee contributions.
17. Government to raise total minimum pension contribution rates within the next 10 years, either to a total of 12% with the flexibility to opt-down, or a total of 10% with an incentive to opt-up to 12% on a matching basis with employers. Both solutions should change minimum contribution rates to be split evenly between employer and employees.
18. Government and/or industry should conduct behavioural research to determine which approach is most favourable and make sure that the increases are affordable and do not result in more people opting-out of pensions saving completely.
19. Government should not legislate for auto-escalation with salary increases. Instead, employers should be encouraged to implement auto-escalation practices into their employee benefits packages alongside other incentives such as contribution matching.
20. Government should launch a green paper investigating early access to pension saving in the case of significant financial hardship. This should consider expanding the list of permitted reasons for authorised payments from pension savings to include financial hardship. Any reform should coincide with the increase of minimum pension contributions.