**From: The DALO**

**Level 9**
**Causeway Exchange**
**1-7 Bedford Street**
**Belfast**
**BT2 7EG**

[redacted]

Date: 11 October 2024

Ms Emer Boyle
Communities Committee Clerk
Room 430
Parliament Buildings
Ballymiscaw
Stormont
Belfast
BT4 3XX

Dear Emer,

**THE PENSIONS (EXTENSION OF AUTOMATIC ENROLMENT) BILL – UNIVERSITY OF STIRLING'S SUBMISSION IN RESPECT OF CALL FOR EVIDENCE**

On 30 September you wrote providing a copy of the response to the Committee's call for evidence on the Pensions (Extension of Automatic Enrolment) Bill, received from the University of Stirling. You asked for the Department's response to the potential for unintended consequences arising from the Bill, as set out in the University of Stirling's response.

University of Stirling's response

On a very positive note the University of Stirling's response ('the response') confirms that previous research has shown that automatic enrolment had a significant positive effect on pension plan participation and contribution rates.

The key point of the response is on the potential unintended consequences that increasing employer pension costs could have on wages. The response refers to research on the effect on wages in the period 2012-2017 when automatic enrolment had just been introduced and was being phased in starting with larger employers.  The research found that employees in large firms without a pension scheme received lower pay once automatic enrolment had been introduced.   In contrast, the response notes that employees at smaller firms received higher total compensation as a result of auto enrolment as smaller employers did not try to recoup the new pension costs.

The response goes on to suggest that as pension costs increase, more employers will off-set pension costs and this will lead to lower take-home wages for young and low paid workers, who may then opt out of automatic enrolment.

Department's response

Automatic enrolment was informed by behavioural analysis which showed that defaulting individuals into pension saving was a very effective way to increase the number of workers participating in workplace pensions. It overcomes the barriers to pension saving presented by individual's behaviours, in the face of the complexities of pension saving and planning for a far off retirement.

Automatic enrolment was introduced in 2012 and phased in by employer size. By 2017, all new eligible employees of all employers were required to be automatically enrolled. Contribution rates were also phased in and in April 2019, minimum contribution rates increased to their current level of 8% overall, with at least 3% from the employer.

The response refers to research caried out during the introduction of Automatic enrolment in the period between 2012 and 2017.  Automatic enrolment is now well established and all employers must by law provide a workplace pension to their employees.

A 2022 survey entitled "Workplace Pensions and Automatic Enrolment: employers' perspectives (DWP)", found that most employers absorbed financial pension costs as part of their standard running costs or overheads.  Generally a workplace pension is seen as a valuable part of an employee's remuneration package which along with wages contributes to improved staff recruitment and retention.

Figures from the 2023 Northern Ireland Annual Survey of Hours and Earnings show that 15.5% of employees aged 18-21 had a workplace pension. However, 75.6% of employees in Northern Ireland aged 22 to 29 have a workplace pension, which indicates that automatic enrolment (which currently starts at age 22) is effective in increasing participation in workplace pensions.

.

The 2017 Statutory Review of automatic enrolment was supported by an external advisory group that represented the views of employers, individuals, pension providers and intermediaries. The review found that younger workers aged 18 to 21 currently miss out on automatic enrolment because the lower age limit is 22. Without that initial nudge there is less impetus to start pension saving.

Similarly the 2017 Statutory Review found that workers who earn more than £10,000 a year are automatically enrolled, but because their contributions are calculated from £6,240, the bottom of the qualifying earnings band, they miss out on a potentially significant contribution, and possibly more than once if they have more than one job. This is particularly pertinent for those on lower incomes as they miss out on contributions on a proportionally greater part of their income.

The Bill aims to provide the powers to extend automatic enrolment in workplace pensions. It confers regulation making powers to:

- Reduce the lower age limit at which otherwise eligible workers must be automatically enrolled into a pension scheme by their employers. The policy intent is to use this power to make regulations to reduce the lower age limit from 22 to 18.
- Reduce or repeal the lower earnings limit of the qualifying earnings band (currently £6,240) so that contributions are calculated from the first pound earned.

Lowering the minimum age to 18 years old is seen as an effective way to embed the habit of workplace pension saving for young people as they start work for the first time.

The removal or reduction of the lower limit of the qualifying earnings band would mean that employees who are automatically enrolled will see their workplace pension schemes receive contributions on more of their earnings. This will be particularly beneficial to lower earners. Workers will, as now, be able to opt out of automatic enrolment.

The Bill provides the primary powers to make changes via subordinate legislation. Subject to Assembly approval of the Bill there is then significant work to be done in tandem with DWP on the development and consideration of policy and the required subordinate legislation which will implement the measures. This will also include the nature and timing of the implementation. There will, as a matter of course, be substantial liaison with the Committee throughout this process.

The NI Annual Survey of Hours and Earnings (ASHE) will continue to form the prime route by which participation in workplace pensions is monitored. ASHE is a UK wide survey that provides a wide range of information on earnings, including workplace pension type by age, gender, occupation and industry. The Northern Ireland survey uses a sample that comprises approximately 1% of all employees in Northern Ireland who were covered by Pay As You Earn (PAYE) schemes. The ASHE figures are reliable and form a long term baseline.

I trust that you find this information helpful.

Yours sincerely,

**Laura Coffey**
Departmental Assembly Liaison Officer
Private Office