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Bill Paper

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Pensions (Extension of Automatic Enrolment) Bill

NIAR 69-24

This paper has been prepared to inform consideration of the Pensions (Extension of Automatic Enrolment) Bill which completed its Second Stage on 3 June 2024. The Bill contains provisions to confer regulation making powers to the Department for Communities to facilitate the implementation of reforms to Automatic Enrolment.

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Key Points

- The Pensions (Extension of Automatic Enrolment) Bill, if enacted, would amend the Pensions (No.2) Act (Northern Ireland) 2008 so as to provide regulation making powers to the Department for Communities to make regulations to (a) reduce the age at which eligible workers are automatically enrolled and re-enrolled into a workplace pension and, (b) to reduce or abolish the Lower Limit of the qualifying earnings (LEL) band contained in the 2008 Act.
- The provisions contained within the clauses of the Bill have their origins in a series of proposals set out in a statutory review of automatic enrolment published by the Department for Work and Pensions (DWP) in December 2017.
- The Pensions (Extension of Automatic Enrolment) Act 2023, enacted in September 2023, provides similar regulation making powers to the Secretary of State for Work and Pensions. That is, to make regulations to lower the age at which qualifying workers are automatically enrolled into a workplace pension and reduce or abolish the LEL in Great Britain.
- Whilst pensions are largely a devolved matter, enacting the Northern Ireland Assembly Bill would bring Northern Ireland into line with pensions policy and legislation in Great Britain in accordance with the parity arrangements for pensions set out in Section 87 of the Northern Ireland Act 1998.
- The Second Stage of the Pensions (Extension of Automatic Enrolment) Bill was completed on 3 June 2024. The Minister stated that Automatic Enrolment can be considered a success and that the measures in the Bill are intended to continue to normalise pension saving among workers, to help lower earning build resilience for retirement, to support individuals in multiple-part time jobs and to simplify automatic enrolment.
- During Second Stage of the Bill, the Deputy Chairperson for the Committee for Communities highlighted a number of issues including the relatively low response to the Department's Equality Impact Assessment exercise, the need to explore forecast costs of the measures on businesses and the public purse, the importance of a robust communication strategy (especially one that is tailored to young people), and the importance of seeking views about potential impact of the reforms on employers.

- The Pensions (Extension of Automatic Enrolment) Bill is a short bill which, if enacted, may have relatively little immediate impact given that it is a piece of enabling legislation. However, if subordinate legislation is introduced on the lowering of the age threshold and in relation to the Lower Earnings Limit threshold, effective and continuous consultation, communication and dialogue with employers and other relevant stakeholders will be crucial.
- Additionally, the provision of sufficient time between legislation and implementation to allow employers and delivery partners to plan for and manage change, will likely be another critical factor.

Contents

1 Introduction

The Pensions (Extension of Automatic Enrolment) Bill was introduced to the Northern Ireland Assembly by the Minister for Communities on 20 May 2024. The Second Stage of the Bill was completed on 3 June 2024. The purpose of the Bill is to amend the Pensions (No.2) Act (Northern Ireland) 2008 so as to provide regulation making powers to the Department for Communities to enable it to introduce regulations that would[1]:

- Reduce the lower age limit at which eligible workers must be automatically enrolled and re-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 age 22 to 18.
- Reduce the lower limit of the qualifying earnings band or repeal the lower limit of the qualifying earnings band so that contributions are calculated from the first pound earned.

Clause 1 (Subsection 5) of the Bill inserts a new provision into section 112 of the 2008 Act to provide that any regulations that are made under the new powers will be subject to the confirmatory resolution procedure.

The Bill (as introduced) is a short Bill, consisting of only two clauses, one of which (Clause 1) is substantive. This Bill makes provisions for Northern Ireland corresponding to those provisions for Great Britain contained within the Pensions (Extension of Automatic Enrolment) Act 2023. The 2023 Act, which was introduced as a Private Members Bill, was passed at Westminster and received Royal Assent in September 2023.[2] The Northern Ireland Assembly Bill, if enacted, would bring Northern Ireland into line with pensions policy in Great Britain in accordance with the parity arrangements for pensions set out in Section 87 of the Northern Ireland Act 1998. An overview of the parity principle

[1] Pensions (Extension of Automatic Enrolment) Bill. Explanatory and Financial Memorandum, p3.

[2] Department for Work and Pensions, Press Release, 'Pension saving boost for millions receives Royal Assent', 19 September 2023.

as it relates to pensions policy and legislation is provided in Section 4 of this RaISe Bill Paper.

The proposals to extend automatic enrolment are “intended to normalise pension savings among workers; help lower earners build resilience for retirement; support individuals in multiple part-time jobs; and simplify automatic enrolment for employers”[3]. Workers will, as now, be able to opt out of automatic enrolment if they wish to do so. These proposals arose from a statutory review into automatic enrolment published by the Department for Work and Pensions entitled ‘Automatic Enrolment Review: Maintaining the Momentum’, published in December 2017. The analytical report of the 2017 review is available here. The proposals of the statutory review are explored briefly in Section 3 of this RaISe Bill Paper.

For ease of reference, provided below are links to key documents and briefings relating to the Bill.

- The Bill (as introduced) and its **Explanatory and Financial Memorandum** are available here.

- The Department for Communities (DfC) **Regulatory Impact Assessment** for the Bill is available here. The **Equality Impact Assessment Final Report** for the Bill is available here (a draft Equality Impact Assessment on the Bill was consulted upon from 18 September to 11 December 2023).

- The **Department for Communities briefed** the Committee for Communities on the Bill on 23 May 2024. The briefing can be viewed on NI Assembly tv here and the Minutes of Evidence are available here.

[3] Pensions (Extension of Automatic Enrolment) Bill. Explanatory and Financial Memorandum, p2.

2 What is automatic enrolment and why was it introduced?

Put simply, automatic enrolment is when a jobholder, who meets certain eligibility criteria, is made a member of a workplace pension scheme without needing to request to be part of it (unless they opt-out). Both employer and employee must contribute to the workplace pension scheme. Automatic enrolment became a legal requirement for employers across the UK and was phased-in by employer size in 2012.

In Great Britain, automatic enrolment was enacted via the Pensions Act 2008. The aim of the Act was to “achieve increased overall participation of workers in employer facilitated pension saving and implementation of a minimum standard of pension saving for the worker concerned”. Given the arrangements for parity in pensions policy across the UK, set out under Section 87 of the Northern Ireland Act 1998, automatic enrolment in Northern Ireland was enacted via the Pensions (No. 2) Act (Northern Ireland) 2008. This Bill was introduced in the Northern Ireland Assembly on 25 November 2008, proceeded through Accelerated Passage, and received Royal Assent on 15 December 2008.

2.1 Why was automatic enrolment introduced?

Since the late 1990s successive UK Governments have introduced a series of pensions reforms in order to meet a number of demographic challenges including longer lifespans and a growing aging population. The Department for Work and Pensions (DWP), in its 2002 Green Paper, ‘Simplicity, security and choice: working and saving for retirement’ emphasised the need to “help today’s employees – tomorrow’s pensioners – provide for their retirement”. At the time of the publication of the Green Paper, the UK Government’s main concerns included a decline in pension provision by some employers, the increased complexity of pension products, the availability of affordable pensions advice, and a legacy of pension mis-selling that had eroded employee confidence in investing in pensions[4].

In 2005, the then Pensions Commission[5] made a series of recommendations to increase private pension savings in its report 'A New Pension Settlement for the Twenty-First Century' including[6]:

- The automatic enrolment of workers by employers into pension schemes to boost pension savings.
- Requiring employers to make minimum contributions to their workers' pension funds to improve the incentive to save.
- A new pension scheme, designed to provide a simple and low-cost way of saving for low to moderate income earners.

In May 2006, DWP in its paper 'Security in retirement: towards a pensions system', set out its intention to introduce a new automatic enrolment system for employees. The aim of automatic enrolment was to place a duty on employers to automatically enrol eligible workers in a pension scheme, unless an eligible worker opted out of the scheme. Both the employer and employee would be required to make contributions. The paper stated that the "new system of…automatic enrolment will provide a simple and straightforward way for people to take personal responsibility for the income they want in retirement"[7].

[4] Department for Work and Pensions, HM Treasury and Inland Revenue. Simplicity, security and choice: working and saving for retirement. December 2002.

[5] The Pensions Commission was a Non-Departmental Public Body which reported to the Secretary of State for Work and Pensions. Its role was to keep under review the UK regime for private pensions and long-term savings.

[6] Department for Social Development. Post legislative scrutiny of the Pensions Act (Northern Ireland) 2008. 2015.

[7] Department for Work and Pensions. Security in retirement: towards a new pensions system. May 2006.

Some further reading on Automatic Enrolment and pensions savings:

J. Mirza-Davies and K. Zaidi. 'Pensions: automatic enrolment – current issues'. House of Commons Library, December 2023.

Institute for Fiscal Studies, The Pensions Review, February 2023.

DWP & Government Social Research, 'Workplace pensions and Automatic Enrolment: Employers' perspectives 2022, October 2022[8].

House of Commons Work and Pensions Committee. 'Protecting pension savers – five years on from the pension freedoms: Saving for later life', September 2022.

Association of British Insurers (ABI). 'Automatic Enrolment: What will the next decade bring', June 2022.

The Pensions Regulator, Research and Analysis webpage.

2.2 How does automatic enrolment work?

The Pensions (No. 2) Act (Northern Ireland) 2008 requires employers to enrol all of their eligible workers into a qualifying workplace pension scheme and to pay pension contributions. The Pensions Regulator website provides a useful diagram of the different types of workers who are eligible and non-eligible for automatic enrolment. It also provides detailed guidance for employers on assessing their workforce to identify the different types of eligible worker.

[8] Note that this research covered employers across a range of sizes, sectors and regions in Great Britain only.

The Department for Communities' Equality Impact Assessment Final Report on the Pensions (Extension of Automatic Enrolment) Bill sets out how automatic enrolment currently works[9]:

Legal requirement	The law requires employers to enrol all their eligible workers into a qualifying workplace pension scheme and pay pension contributions.
Who is eligible?	Eligible workers are those who: • are not already in a workplace pension scheme; • are between age 22 and State Pension age; and • earning more than the minimum earnings threshold (£10,000 per year, or £833 per month, or £133 per week, since 2015/16).
Qualifying earnings band: the upper and lower earnings limits	Employers have to enrol eligible workers into a qualifying pension scheme that meets specified criteria. Since 2022/23, contributions are required to be made on earnings between the lower limit of £6,240 and the upper limit of £50,270 of the qualifying earnings bands. Unless they 'opt-out', employees will build up a private pension through their contributions and those of their employer.
'Opting in' and 'Opting Out'	**'Opting in'** Workers who are not automatically enrolled (e.g. those aged 16-21) can ask to join an employer's scheme and must be enrolled within one month of such a request being received by the employer. In such instances, employers will have to make contributions if a request is made and the worker is: • aged 16-74; and • earns at least £520 a month or £120 a week. **'Opting out'** Eligible workers who are entitled to be automatically enrolled (for example, a worker aged 25) can choose to 'opt out' of the employers' pension scheme if they wish to do so.

[9] The information is this table is extracted from Department for Communities, Pensions (Extension of Automatic Enrolment) Bill: Equality Impact Assessment Final Report, 26 April 2024, pp7-8.

Employee and employer contributions	Where a worker is automatically enrolled in a defined contribution (DC) pension scheme or NEST (the National Savings Trust) there will be a minimum contribution of 8% of qualifying earnings, of which: • the employer must pay a minimum of 3%; and • the worker will pay 4%, with a further 1% paid as tax relief by government.

In addition to their initial automatic enrolment duties, employers also have 're-enrolment' duties. Every three years, employers must put certain staff who have left their pension scheme back into it, this is called 're-enrolment' (although there are exceptions). The Pensions Regulator provides detailed guidance for employers and employees on the re-enrolment process.

For further detailed information on automatic enrolment see:

The Pensions Regulator[10] – 'Automatic enrolment: an explanation of the automatic enrolment process' (for employers), detailed guidance for employers, and information for workers.

NI Direct 'Enrolling into a pension at work'.

nisbusinessinfo.co.uk – 'Know your legal obligations: automatic enrolment into a workplace pension'.

MoneyHelper – Auto enrolment introduction and Frequently Asked Questions.

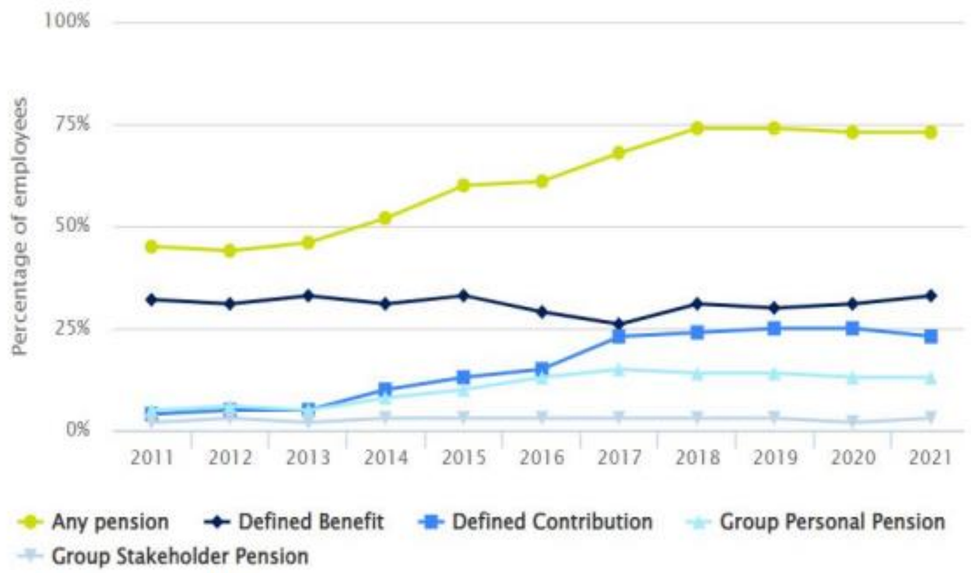
2.3 How many workers have workplace pensions in Northern Ireland?

The Equality Impact Assessment Final Report on the Pensions (Extension of Automatic Enrolment) Bill was published by the Department for Communities in

[10] The Pensions Regulator (TPR) is the UK regulator of workplace pension schemes and is sponsored by the Department for Work and Pensions.

April 2024. The report considered the latest available pensions data from NISRA's [Annual Survey of Hours and Earnings (ASHE)] 'Pensions Results' which covers the years 2011 to 2021. Chart 1 below, extracted from the ASHE shows the breakdown of occupational pension scheme membership by scheme type and the growth in pension participation from 2011 to 2021[11].

Chart 1: Pension scheme membership (%) by scheme type, Northern Ireland 2011-2021



Source: Northern Ireland ASHE

ASHE: key statistics[12]:

- In April 2021, 73% of employees in Northern Ireland belonged to some form of pension scheme, in 2011 the figure was 45%.
- 92% of public sector employees and 62% of private sector employees were members of a scheme. This is an increase of 12 percentage points for public sector employees and 39 percentage points for private sector employees since the introduction of automatic enrolment in 2012.

[11] NISRA reports that due to unavoidable delays in data being provided by the ONS, NISRA is unable to published the ASHE Pensions results for 2022. It is currently anticipated that statistics based on final data for 2022 will being provided in Spring 2024.

[12] NISRA. Annual Survey of Hours and Earnings (ASHE).

- Occupational Defined Benefit pension has been the most common form of workplace pension for the past ten years, and remained in and around 30% over the 2011 to 2021 period.
- However, in contrast, and with the introduction of automatic enrolment in 2012, occupational Defined Contribution (DC) has increased almost sixfold in the last ten years, from just 4% in 2011 to 23% in 2021. DC is now the second most common pension type in Northern Ireland over the last eight years.

Pensions – statistics on gender and age[13]:

- Age is a key factor in determining whether an individual is a member of an occupational pension scheme with 22-29 years olds having the largest increase in workplace pension membership since introduction of automatic enrolment in 2012. An increase from 25% in 2012 to 72% in 2022. However, those aged 18 to 21 years old had the smallest proportion of membership (17% in 2022) but up from just 1% in 2012. *Note that currently this age group are not required to be automatically enrolled in workplace pension schemes.*
- From 2012 to 2022 there has been a similar increase in the percentage of both males and females who had a pension, with 72% of males and 74% of females now belonging to workplace pension schemes.

Further analysis of research and data on workplace pensions is available in pp11-17 of the DfC Equality Impact Assessment Final Report.

3 Background and policy context to the Bill

The provisions contained within the clauses of the Bill have their origins in a review of automatic enrolment published by the Department for Work and Pensions (DWP) in December 2017. The review, which was supported by an independent Expert Advisory Group, was a statutory requirement under the

[13] Department for Communities. Pensions (Extension of Automatic Enrolment) Bill: Equality Impact Assessment Final Report, April 2024, pp11-18.

Pensions Act 2008. The review publication, entitled 'Automatic enrolment review 2017: Maintaining the momentum', concluded that whilst automatic enrolment was the right framework for workplace pensions, there were a number of strategic problems. One of the strategic problems identified was that the current structure of automatic enrolment meant that some workers, particularly part-time workers and younger workers, did not benefit as much from automatic enrolment.

The review concluded that[14]:

- Whilst workers who earn more than £10,000 a year in their job are automatically enrolled, because their contributions are calculated from the bottom of the qualifying earnings band in each job, they miss out on a potentially significant contribution, and possibly more than once.
- Non-eligible jobholders who earn £10,000 a year or less in each of their jobs do not qualify for automatic enrolment, even if their combined earnings exceed £10,000.
- Entitled workers who earn at or below the Lower Earnings Limit (LEL) in each of their jobs are not necessarily entitled to an employer contribution even if they opt in.
- Younger workers aged 18 to 21 currently miss out on automatic enrolment because the lower age limit of 22 was based on previous National Minimum Wage (NMW) criteria which was subsequently superseded in 2010.

The review proposed to:

- To reduce the lower age limit from age 22 to 18.
- To support individuals, predominantly women, in multiple part-time jobs and to simplify the automatic enrolment process by changing the framework for automatic enrolment so that pensions contributions would

[14] Department for Work and Pensions, 'Automatic Enrolment Review 2017: Maintaining the momentum', December 2017, p13.

be calculated from the first pound earned, rather the lower earnings limit [which is currently £6,240].

The Pensions (Extension of Automatic Enrolment) Act 2023 (“the GB Act”) was enacted on 18 September 2023. It gives *regulation making powers* to the Secretary of State for Work and Pensions to introduce regulations to lower the age at which qualifying workers are automatically enrolled into a workplace pension and reduce or abolish the Lower Earnings Limit contained in the Pensions Act 2008. This legislation extends only to Great Britain and not to Northern Ireland as pensions is largely a devolved matter. The Northern Ireland Assembly Bill will provide similar regulations making powers to the Department for Communities.

Departmental officials indicated, during their briefing to the Committee for Communities on the Bill on 23 May 2024, that subordinate legislation required to implement the changes to automatic enrolment in Great Britain would be introduced which would potentially come into operation within the first few years of the next Parliament. Officials indicated that the Department for Communities would seek to follow that timeline. However, since the DfC briefing, the Prime Minister has called a general election and the UK Parliament has been dissolved. Post-election, clarity may need to be sought as to the timing of the introduction of the regulations in GB.

The 2017 review published by the DWP also explored mechanisms for automatically enrolling self-employed workers and for ‘atypical workers’ in the “gig economy”. The review identified that a large proportion of the self-employed population experience significant gaps in pension coverage and/or other savings for retirement. Additionally, the review stated that DWP would continue to monitor and evaluate the impact of increasing contributions and would carry out further analysis to inform a longer-term debate on the right balance between statutory contribution rates and voluntary additional retirement savings.

Measures relating to the self-employed or in eligible “atypical” workers do not form part of the Northern Ireland Assembly Pensions (Automatic Enrolment) Bill nor the corresponding piece of legislation that applies in Great Britain, that is, the Pensions (Extension of Automatic Enrolment) Act 2023. However, any substantive deviation by the Northern Ireland Assembly and Executive to introduce further measures in these areas, that are not in keeping with parity in pensions legislation and policy with Great Britain, may have regulatory and financial implications. An overview of parity and pensions policy and legislation in Northern Ireland is provided in the next section of this RaISe paper.

4 Section 87 of the NI Act 1998: the 'parity principle'

Section 87 of the Northern Ireland Act 1998 requires the Minister [for Communities] and the Secretary of State for Work and Pensions to *consult* with one another in order to ensure that relevant legislation achieves, as far as possible, a single system of social security, child support and pensions across the UK. This is often known as the "parity principle". Underpinning the principle of parity is the argument that people in Northern Ireland pay the same rate of income tax and National Insurance contributions as those in GB and are therefore entitled to the same benefits and rights[15].

Section 87 does not explicitly place a statutory requirement on the Minister to always maintain parity with Great Britain. Rather, it places a requirement on the Minister to "consult" with the Secretary of State for Work and Pensions, in order to maintain single systems of social security, child maintenance and pensions. In more recent years, Northern Ireland has deviated from parity in social security policy, for example, by introducing welfare mitigations payments.

However, HM Treasury's 'UK Statement on Funding Policy' for the devolved governments sets out that there may be financial implications for the devolved administrations should they deviate from parity, as was the case in terms of funding Northern Ireland welfare mitigations[16]:

[15] Explanatory Memorandum to the Northern Ireland Act 1998 (Modification) Order 2009.

[16] HM Treasury. Statement of funding policy: Funding the Scottish Government, Welsh Government and Northern Ireland Executive. November 2020.

Extract from the UK Statement of Funding Policy

"The majority of responsibilities relating to welfare are devolved matters in Northern Ireland. However, the Northern Ireland Act 1998 commits the relevant UK government and Northern Ireland Executive ministers to seek to secure, to the extent agreed between them, single systems of social security, child support and pensions.

The UK government is therefore committed to ensuring that the Northern Ireland Executive has sufficient funding available to maintain welfare payments to recipients in Northern Ireland to the same level as those funded by the equivalent UK government departments and agencies in Great Britain.

This is achieved by budgeting for the relevant welfare payments in AME[17], based on forecasts agreed between the relevant Northern Ireland departments and HM Treasury. It is important, therefore, that Northern Ireland Executive departments provide detailed evidence-based forecasts and update them regularly in light of emerging information.

If the Northern Ireland Executive opts to depart from arrangements in place in Great Britain such that the AME costs borne centrally by the UK Government are greater than the equivalent costs borne by the relevant UK government departments, HM Treasury will seek to recover additional costs from the Executive's block grant, in line with the general principle outlined at paragraph 2.5, subparagraph 10. The Northern Ireland Executive retains the capacity to provide additional funding to recipients in line with its own priorities, if it can meet the

[17] Annually Managed Expenditure (AME)

> costs from the DEL[18] block grant or from other available sources of funding".

Whilst pensions are largely a devolved matter, the Regulatory Impact Assessment produced by the Department for Communities in respect of the Bill states that, "in general NI's pensions policy and legislation operate in line with corresponding pension provision in GB in accordance with section 87 of the NI Act 1998". This means that, in effect, there is a single pension system and regulatory regime across the UK" in that there is:

- a single regulatory system for workplace pensions across all jurisdictions in the UK is overseen by The Pensions Regulator; and
- many pension schemes used by employers and in which Northern Ireland eligible workers are enrolled are UK-wide pension schemes.

Therefore, there are regulatory, financial and operational reasons for the maintenance of parity in pensions policy and legislation between Great Britain and Northern Ireland. However, there are mechanisms available to scrutinise the decisions of the Department for Work and Pensions in relation to social security and pensions policy and legislation. For example, the Committee for Communities has in the past written to the Secretary of State for Work and Pensions and/or Department for Work and Pensions seeking clarity on matters, requesting progress updates, and raising concerns on matters relating to social security. MPs representing constituencies in Northern Ireland may also raise questions with the Secretary of State for Work and Pensions on social security and pensions matters, for example, through questions in the House of Commons.

[18] Departmental Expenditure Limits (DEL)

5 Clause 1 of the Bill

The Pensions (Extensions of Automatic Enrolment) Bill (as introduced) is a short Bill consisting of two clauses, only one of which (Clause 1) is substantive. In summary Clause 1 of the Bill (as introduced) contains provisions to:

- **Insert a regulation making power** into Sections 3 and 5 of the Pensions (No.2) Act (Northern Ireland) 2008 to enable the Department for Communities **to decrease the age** upon which an employer has an obligation to automatically enrol jobholders into a scheme that fulfils the criteria for an automatic enrolment scheme.
- **Insert a new section (section 13A)** into the 2008 Act which would contain a regulation making power to enable the Department to reduce or abolish the lower limit of the qualifying earnings band for automatic enrolment. It would also enable the Department to make regulations to repeal section 9 of the 2008. The Bill's Explanatory Memorandum states the purpose of this is because section 9 would no longer be required if the lower limit was abolished.
- **Subsection (5) of Clause 1** inserts new provisions into section 112 of the 2008 Act to provide that any regulations that are made under the new powers are subject to the confirmatory resolution procedure.

6 The Bill's Regulatory Impact Assessment and Equality Impact Assessment

The Department for Communities published a Regulatory Impact Assessment (RIA) for the Bill on 14 May 2024. The RIA noted that the current automatic-enrolment legislative framework for Northern Ireland does not currently allow for changes to be made to the eligibility criteria for either age or qualifying earnings. Therefore, to bring Northern Ireland into line with GB, the Department would require regulation making powers to provide changes to (a) the reduction in the minimum age for automatic enrolment eligibility and (b) the reduction or abolition of the Lower Earnings Limit (LEL).

The Regulatory Impact Assessment considered three policy options which are outlined below in the table below:

	DfC Commentary
Option 1: do nothing.	Automatic-enrolment has been shown to be effective in addressing pension under-saving. However, the policy objectives outlined above relating to lowering the threshold age and reducing or abolishing the LEL cannot be achieved via the do-nothing option.
Option 2: take legislative power to lower the age threshold and reduce or abolish the LEL.	The legislative option under consideration here would enable an update to the targeting of AE to ensure that its benefits are applied to the most appropriate audience building on the 2017 review. These changes would remedy constraints in the original legislative framework, allowing appropriate flexibility now that the initial implementation period has concluded.
Option 3: Non-legislative option – encouraging the adoption of a zero LEL and enrolment from age 18.	Consideration was given to the non-legislative option of encouraging employers to voluntarily adopt the intended policy of making contributions to workplace pensions from the first pound earned and making those contributions from the age of 18.

The Department concluded that **option 2** was the preferred, providing the following rationale:

- Reducing the lower age limit age to 18 would re-align the lower age with the National Minimum Wage (NMW) age criteria (ages 18 to 20) thereby providing consistency, removing the arbitrary age 22 assessment and simplifying processes for most employers who would not have 16 to 17 year olds as part of their workforce.
- Removing the LEL would mean that pension contributions would be made from the first pound earned, thereby increasing total pension saving and simplifying contribution calculations both for employers and individuals. Reducing, rather than removing the LEL, would mean that contributions would start at the new LEL. This would have the effect of increasing pension savings as contributions would be paid from the new LEL. However, the impact on pension savings by lower earners and

those in multiple jobs would be less than if the LEL was removed altogether.

The Department felt that the proposed changes would "continue to normalise pension saving among workers; help lower earners build resilience for retirement; support individuals, in multiple part-time jobs; and simplify AE for employers".

Economic Assessment: Option 2

The RIA states that proposed legislation will not result in any immediate substantive costs/benefits. This is because the Act will provide regulation making powers for the Department rather than immediately changing the law to reduce the lower age limit or reducing or abolishing the LEL (this would be done via subordinate legislation).

The RIA for the NI Bill states if those powers to implement the proposals outlined in the 2017 statutory review were implemented, that is the lowering of the age and Lower Earnings Limit thresholds, it estimated that:

- Total pension contributions could increase by £45 billion over 30 years (£2.0 billion in year 1).
- Of this, employer contributions are expected to be around £19 billion (£0.8 billion in year 1); employee contributions of £21 billion (£0.9 billion in year 1) and income tax relief on employee contributions of £5 billion (£0.2 billion in year 1).

Note, however, that these are not Northern Ireland-specific figures rather they appear to be figures that have been extracted from the DWP RIA for the equivalent Westminster Bill.

The Regulatory Impact Assessment published by the Department for Communities also explores other factors such as the impact of the proposals on pension savings, employer costs, benefit claims (such as pension contributions for Universal Credit claimants), the impact on Pension Credit claimants, costs associated with employers' familiarising themselves with the new arrangements and preparing their administrative arrangements, social welfare benefits, and a section on the impact on small and micro businesses. It is highly recommended that the proposals in the Bill are read in conjunction with the Regulatory Impact Assessment.

6.1 Equality Impact Assessment

A draft Equality Impact Assessment (EQIA) on the proposals was published by the Department for Communities in September 2023 and a public consultation ran from 18 September 2023 until 11 December 2023. Five responses were received on the consultation. The Department states that no adverse impacts to Section 75 groups as a result of the proposals were identified. The EQIA Final Report was published in April 2024, this also did not identify any adverse impacts. It concluded that:

"Extending automatic enrolment by decreasing the lower age limit would contribute to increasing the participation of younger workers in saving for retirement, embedding pension participation at an earlier age and ultimately feeding through to increased participation in older demographics.

Abolishing the lower limit of the qualifying earnings band would improve the incentives for those in multiple jobs, often younger workers, to opt in to their workplace pension scheme, as they would benefit from an employer contribution for every pound they earn in every job, up to the upper limit of the qualifying earnings band."

As previously stated there were just five responses to the consultation. Amongst those who did comment, there were general concerns raised around, for example:

- A need for data, including a gender breakdown, on other forms of employment such as self-employment, freelancing, fixed-term contracts, and zero hours contracts, and those working in the gig economy.
- That research has shown that precarious work patterns can impact on the capacity of some workers to save for a pension.
- That the new changes to automatic enrolment could pose an administrative burden on employers, agents, bookkeepers and accountants. This respondent sought assurance that the changes would

not be implemented "overnight" with "mass enrolment" and that education, communication and development should be considered.

- That the policy would push up employers' costs for "no benefit" to low paid staff.
- Questioning why pensions is a devolved matter if parity in pensions policy is maintained.

The Department's responses to the issues raised by the respondents is available in the Annexe of the Final report.

7 Issues raised at Westminster

The equivalent Westminster Pensions (Extension of Automatic Enrolment) Bill was introduced by Jonathan Gullis MP as a Private Members Bill (PMB) in February 2023. The Bill was supported by the UK Government and the Bill's Explanatory Notes and Regulatory Impact Assessment were prepared by the Department for Work and Pensions.

The Bill was considered by a Westminster Public Bills Committee and debated by the Committee on 15 March 2023. Generally speaking, the Committee were supportive of the principles of the Bill. However, a few issues were raised by some Members:

- One Member questioned why the proposal to lower the age threshold for automatic enrolment stopped at age 18, rather than extending it to aged 16, bringing it into line with income tax. However, Mr Gullis stated that whilst he would support discussing the issue further with the Member, the purpose of his PMB was to seek to introduce the legislative amendments set out in the 2017 Automatic Enrolment statutory review. This review had recommended lowering the age threshold to age 18.
- One Member expressed concern about a "general lack of understanding about pensions" which she felt was a "real problem when it comes to future planning". The Member quoted research by the Social Market Foundation which she stated showed that a significant proportion of the

population nearing retirement age did not know how much money they would need to see them through retirement.

- One Member sought further information around what work DWP had done to consult with pension savers, particularly young people, in order raise awareness of the importance of pensions savings. The Member also sought information on how DWP, post-legislation, would work with employers, employer organisations and trade unions in the further roll-out of Automatic Enrolment.
- The same Member also questioned how soon the subordinate legislation to implement the changes to automatic enrolment would be brought forward and whether factors such as the performance of the economy and the cost of living crisis would be considered.

In response to some of the issues raised in the then Minister for Pensions, Laura Trott MP, informed the Committee that[19]:

> *"On the questions from the hon. Member for Reading East, the Government are clear that implementing the expansion of automatic enrolment can only take place following consultation. That will be a consultation on the implementation approach and the timetable. He mentioned employer and employee engagement in particular. We absolutely need a full comms campaign, and—to the points raised by the hon. Member for Glasgow East—we could also look at what we can do for 16-year-olds. Even if we do not get quite where the hon. Member for Glasgow East wants us to with the age, I think there is more we can do to encourage them to opt in. We can discuss that as part of the consultation."*

8 Second Stage of the Bill

The Second Stage of the Pensions (Extension of Automatic Enrolment) Bill was completed on 3 June 2024. The Minister for Communities outlined the

[19] UK Parliament, Pensions (Extension of Automatic Enrolment) (No.2) Bill. 15 March 2023.

provisions in the Bill and emphasised that the same provisions had already been enacted in Great Britain in the Pensions (Extension of Automatic Enrolment) Act 2023. The Minister stated that although pensions was a devolved matter, it was "highly desirable that the same provisions are in place in Northern Ireland to ensure parity across both jurisdictions". He concluded by stating that:

> *"By most standards, automatic enrolment can be considered a success. The measures in the Bill are intended to continue to normalise pension saving among workers, to help lower earners build resilience for retirement, to support individuals in multiple-part time jobs and to simplify automatic enrolment. Workers will, as now, be able to opt out of automatic enrolment. I believe that automatic enrolment is something that we can all support. I therefore commend the Bill to the Assembly".*

The Deputy Chairperson for the Committee for Communities stated that the Committee had been briefed on the Bill by the Department at its meeting on 23 May. She highlighted the Committee had raised a number of queries and issues relating to:

- The forecast costs that be might imposed on businesses and the public purse. She noted that whilst the Bill will not impose substantial costs on businesses at this time, this has the potential to change over time.
- The low response to the EQIA consultation (i.e. five responses). However, she noted that a full Equality Impact Assessment had been carried out by the Department which had identified no adverse impacts on section 75 groups.
- The importance of a robust communication strategy, particularly one which ensured that younger workers are aware of their rights and the benefits of automatic enrolment. The Deputy Chair emphasised the need for the communication strategy to be tailored to the communication platforms on which younger workers engage. It was noted that traditional government websites may not be the most effective means of reaching

that demographic of the population. She stated that the Committee were keen to seek the views of young people as part of its scrutiny of the Bill.

- The importance of seeking out more information about potential employer impacts, particularly from sectors relying on young workers.

A number of other members of the Committee reiterated their support of the Bill during Second Stage, particularly the potential positive future impact that the extension of automatic enrolment could have on local young people in terms of increasing pensions savings and fostering a culture of financial responsibility and long-term planning.

9 Reactions to the NI Assembly Bill?

The Committee for Communities Call for Evidence on the Pensions (Extension of Automatic Enrolment) Bill will commence shortly and views will be sought from individuals and organisations on the provisions of the Bill.

The Association of British Insurers (ABI) has been one of the first organisations to respond to the introduction of the Bill. It recently produced a briefing for MLAs welcoming the Bill reaching Second Stage and expressing its support for the measures outlined in the Bill. ABI states that it is pleased to see the UK Government support the measures around altering the age and earnings limit thresholds for Automatic Enrolment and welcomed their commitment to consultation on implementation.

However, ABI stated that it would wish to see additional measures introduced such as increasing the employer contributions to 5%, with a further increase for employer and employee contributions to 6% by the end of the next Parliamentary term[20]. Currently, employers contribute a minimum 3% and employees 5% of earnings, part of which includes tax relief[21]. ABI also stated it would also like to see a clear policy developed and implemented on

[20] ABI Briefing. Pensions Extension of Automatic Enrolment) Bill, May 2024.

[21] Department for Communities, Pensions (Extension of Automatic Enrolment) Bill: Equality Impact Assessment Final Report, April 2024.

encouraging self-employed workers to save. ABI believes that self-employed people should be "required to pay increased National Insurance contributions or to divert these to a private pension"[22].

People who are self-employed may have other or alternative views on pensions provision. The Call for Evidence provides an opportunity for all relevant stakeholders, including workers and employees, employee representative organisations, employers of all sizes, and those working in, or in professions connected to the pensions industry, to express views on the provisions within the Bill.

10 Conclusions

The Pensions (Extension of Automatic Enrolment) Bill is a short bill which, if enacted, may have relatively little immediate impact given that it is a piece of enabling legislation. The substantive impact for both eligible workers and employers will become most apparent in the lead up to the introduction of the regulations and in the years following the introduction of the subordinate legislation. There is clearly an important body of work to be done by both the Department for Work and Pensions in Great Britain and the Department for Communities in Northern Ireland in the lead-up to, and post-introduction, of any related subordinate legislation.

As highlighted during the Second Stage of the Bill, the Committee for Communities indicated that it is keen to ensure that there is an effective communication strategy put in place, particularly a tailored approach for younger workers. The Department for Communities stated, during its evidence session with the Committee, that it would work with its counterparts in Great Britain to "create a full and proper communications plan"[23]. There is also likely preparatory planning work to be done by The Pensions Regulator, pensions

[22] ABI Briefing. Pensions Extension of Automatic Enrolment) Bill, May 2024.

[23] Northern Ireland Assembly, Committee for Communities, Pensions (Extension of Automatic Enrolment) Bill: Department for Communities, Minutes of Evidence, 23 May 2024.

providers, payroll practitioners, and for those organisations and individuals who provide pensions advice and information.

In the 2017 statutory review of Automatic Enrolment, the Department for Work and Pensions stated that whilst the proposed changes to Automatic Enrolment would bring future financial benefits for individuals and the UK's longer term fiscal position, it would have significant consequences which would need to be shared between individual savers, employers and government. It indicated that "all parties will need time to plan for this, being mindful of the broader economic climate".

During Second Stage of the Bill, Deputy Chair of the Committee for Communities emphasised the importance of seeking out more information about the potential impact of changes to Automatic Enrolment on employers. It will be particularly pertinent to hear the views of small to medium-sized businesses in Northern Ireland. The 2017 review acknowledged that employers have been central to the success of Automatic Enrolment. Therefore, effective and continuous communication and dialogue with employers, and the provision of sufficient time between legislation and implementation to allow employers and delivery partners to plan for and manage change, will be crucial to the successful reform of Automatic Enrolment.