Northern Ireland Assembly

Research and Information Service
Briefing Paper

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Automatic Enrolment: follow-up questions

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Introduction

The Committee received a briefing from RaISe on the Pensions (Extension of Automatic Enrolment) Bill Paper on 13 June 2024. The Committee requested clarification and/or additional information on a number of related issues which are outlined below:

1 Is there a communication strategy in place for Great Britain and do we know what impact the communication strategy has had in Great Britain?

The Committee for Communities has emphasised that an effective communication strategy, particularly one which is specifically tailored to young people, will be crucial to the successful roll-out of the proposed changes to Automatic Enrolment. The Pensions (Extension of Automatic Enrolment) Act 2023 which extends to England, Scotland, and Wales has already received Royal Assent (on 13 September 2023) but the significant parts of the Act which will introduce the reforms to automatic enrolment have not yet commenced. They require the introduction of regulations by the Secretary of State for Work and Pensions.

The new Labour Government has recently made a number of announcements on pensions including the announcement by the Chancellor Rachel Reeves MP, for a wide-raging pensions review. However, after extensive searches I have been unable to find information on if, or when, the UK Government intends to progress the legislation on automatic enrolment, whether a communication strategy is being progressed or whether there will be further deliberations on automatic enrolment as part of the pensions review.

The Committee may wish to consider either:

- Writing to the Department for Communities to seek information as to whether it has had any further correspondence with the Department for Work and Pensions on the progress of the GB automatic enrolment regulations and communication strategy; or

- writing to the Secretary of State for Work and Pensions seeking information on the progress of the GB automatic enrolment regulations and communication strategy.

2 Are there figures on how many of the new eligible workers have enrolled and how many have opted out in Great Britain?

As outlined in the answer to the previous questions, the changes to automatic enrolment in Great Britain have yet to commence so there is as yet no available data on take-up or opt-out in the proposed new eligible worker cohort.

3 Cross border pensions – is there co-ordination or the potential for co-ordination, or a memorandum of understanding or something similar on the split or multiple pensions that people may have?

There are both advantages and drawbacks to having multiple pension pots. It may be advantageous, for example, to keep the pension pots separate as some investments could be performing better than others at different times and may yield more than having a single pension with just a single provider. But there are also a number of disadvantages, for example, there may be multiple administration charges associated with each pension instead of a single administration charge with a single provider. It is also more difficult to keep track of multiple pension pots and people may be unaware of the opportunities available to combine multiple pension pots and invest them with a single pension provider.

There has been a policy focus on the potential consolidation of multiple pensions in recent years. For example in 2023, the Department for Work and Pensions launched a consultation on addressing the challenges of a growing number of small deferred pension pots including 'lost' pension pots. There is also a Pensions Tracing Service to help people locate and engage with their pensions (if they are within the UK). There is a similar Pension Tracing Service in the Republic of Ireland. Interestingly, the consultation does not seem to explicitly address the issue of multiple cross-border pension pots in detail.

I have been unable to find a memorandum of understanding or something similar *specifically* in relation to cross border split or multiple pensions. There is a Convention on Social Security between the UK and Ireland that took effect on 1 January 2021. There is also the Trade and Cooperation Agreement (TCA) which contained a Protocol on Social Security governing the future relationship between the European Union and the United Kingdom. These deal with the issue of the coordination of cross border pension issues generally. The Pensions Regulator (UK) has also produced guidance on cross-border occupational pensions schemes following the end of the Brexit transition period.

The Committee may wish to consider writing to the Secretary of State for Work and Pensions seeking clarity as to whether the new Labour Government will continue the work of the previous Government on multiple pensions and whether cross border pensions will form part of this work.

4 How many eligible workers have opted out of Automatic Enrolment? Has there been any regional analysis of this figure or comparison with opt-out levels in other jurisdictions? Why do people in Northern Ireland opt-out of automatic enrolment?

This issue has been explored by one of the RaISe statisticians. See paper NIAR 145/24 **'Automatic enrolment and 'opting out' of workplace pension provision in Northern Ireland'** which is available in the Committee pack.

5 How can we support workers from disadvantaged areas with pension take-up?

Research by the Pensions Policy Institute (PPI) maintains that certain groups in society are at greater risk of experiencing poorer retirement outcomes, including[1]:

- Women (particularly women who are divorced and single mothers).
- People from minority ethnic backgrounds.

[1] Pension Policy Institute, 'The Underpensioned Index', 2022.

- People with disabilities.
- People with caring responsibilities.
- People in non-traditional employment, for example, multiple jobholders and the self-employed.

The research identified that inequalities during working life, especially in the labour market and also in housing, contributed to increased risk of experiencing inadequate retirement outcomes in later life among ‘underpensioned’ groups. Influencing factors include:

- Lower rates of employment amongst these groups including higher rates of part-time employment.
- That the gap between average underpensioned incomes and the population average has grown.
- Inequalities in housing including high rent levels and higher housing costs which erode already low retirement incomes.
- The current cost of living crisis has negatively impacted on underpensioned groups.
- Carers are less likely to be in paid employment; if they are employed, they are more likely to be working part-time and receiving a lower income.

The report goes on to argue that the current economic climate has made it more challenging to implement further policies to narrow the gap in pension provision among disadvantaged groups. However, it maintains that addressing the ‘underpensioned’ challenge must be approached with a long-term view.

Automatic enrolment has brought more underpensioned groups into pensions savings. The proposed changes in the Bill, if enacted, will bring many more groups into pension savings including younger people, women and those who have multiple jobs.

In terms of supporting disadvantaged groups to take-up pensions, this could potentially involve:

- **Better engagement** – another research report by the PPI maintains that more effective and targeted engagement along with supporting people to make informed choices in pension savings would be advantageous. Technological advancements such as pensions dashboards may aid engagement and support greater personalisation so that people can visualise the advantages of pensions investment.

- **Providing support** – some groups will require more than engagement alone. For example, those who are financially vulnerable, with lower levels of financial capability and knowledge are less likely to be able to make active choices. The research suggests that making formal financial advice and guidance more widely available alongside built in safety nets and protection-based policies to provide help to those who are unlikely to make informed active choices.
- **Collaboration in the pensions industry** – the report argues that the pensions industry has started to take a more collaborative approach including cross-industry awareness campaigns. The report maintains that more could be done in this area including agreeing clearer language to be used across the industry. There are now a number of campaigns to raise awareness of pensions including 'Pensions awareness week' and 'National pension tracing day' but the profile of these may need attention.
- **Collaboration with stakeholders outside the pensions industry** – a more joined-up approach with older stakeholders to promote pensions and financial capability including educational institutions (schools and universities) and employers. Finance-related educational programmes are increasingly being offered to children and young people perhaps this should be enhanced.
- **The role of employers** – the research maintains that there is an important role of employers as they have frequent contact with their employees. Employers could provide, or commission a third party to provide, financial education, financial wellbeing workshops and information about workplace pensions. The research maintains that there is, however, considerable variation in the support provided by employers which means that individual's outcomes may be impacted by where they work.

There are wider structural problems which impact on the ability of disadvantaged groups to invest in pensions. The current cost of living crisis impacts on the level of disposal income that low income groups have available to invest. Other workers such as women, single mothers, people from minority ethnic groups, people who are disabled and carers are more likely to experience income poverty and accessing well paid employment that could help them access pension savings. These wider structural inequalities are much more complex to address.

6 What is the employer and employee contribution in automatic enrolment – is this contribution mandatory for the employer?

There is a minimum contribution of 8% of qualifying earnings of which the employer must pay a minimum of 3%, the employee will pay 4% with a further 1% paid as tax relief by the government. Employers must pay at least the minimum contribution[2]. However, some employers may opt to pay more than the 3% as an incentive. For example, as an incentive to encourage people to apply for jobs or to promote staff retention.

7 Is the choice of pension provider the decision of the employer or is it between the employer and employees to decide?

It is up to the employer to choose the pension scheme, in choosing a scheme an employer may either find a scheme itself or seek advice from their accountant or a financial adviser. In choosing a pension scheme, The Pensions Regulator advises employers to consider a number of issues such as whether the pensions provider will accept their staff (for example, if it is a small business), how much it will cost, and whether it will work with the employer's payroll system[3].

[2] Gov.uk, 'Workplace pensions – what your employer can and cannot do'.

[3] The Pensions Regulator, 'Automatic enrolment: choose a pension scheme'.

8 How has the issue of raising state pension age/women's state pension age (women born in the 1950s) impacted generally on the reputation of pensions and uptake of pensions?

The Women Against State Pension Inequality (WASPI) campaign has long argued that many women born in the 1950s have been disproportionally impacted by the rise in state pension age. In July 2021, the Parliamentary and Health Service Ombudsman published a report on the first stage of its investigation of the issue. It concluded that there had been maladministration and the Department for Work and Pensions (DWP) had failed to provide many of these women with accurate, adequate and timely information about state pension age reform. Further information on the increases in state pension age for women and the WASPI campaign is available in a House of Commons Library paper, available here.

In 2024, the Ombudsman published a further report in which it concluded that "what DWP has told us during this investigation leads us to strongly doubt it will provide a remedy". As the Ombudsman has no powers to compel an organisation to comply with its recommendations, it has taken the step of asking Parliament to intervene.

But to what extent has the WASPI issue impacted on women's attitudes to pensions or pension take-up? It is difficult to ascertain the impact the WASPI issue has had on younger women's attitudes to pensions and pension take-up rates as RaISe was unable to find research on this issue. But there is evidence to suggest that the issue has had a personal and economic impact on women born on the 1950s who have been impacted by the change to state pension age. For example, in recent evidence to the House of Commons Work and Pensions Committee (May 2024), representatives of the WASPI campaign argued that the women impacted had, for example:

- Lost opportunities to make informed decisions about their finances and their future.
- Experienced worry, distress and financial hardship.

- Lost out financially in divorce settlements as many women's settlements were calculated on the basis of being awarded a pension at the age of 60.

Women's attitudes and access to pensions generally is an important policy issue. On average women live longer than men so require more pension wealth to have an adequate amount of income over their retirement. Recent research by the House of Commons Library states that the 'gender pensions gap' can lead to disparities in pension wealth at different ages, in pension income received, and in state pension income.

A 2019 report by the Pensions Policy Institute argued that the gender pensions gap is primarily caused by the gender pay gap. With women on average earning less than men as well as having different working patterns (e.g. part-time work and taking time off for work and caring responsibilities). A 2022 report by the House of Commons Work and Pensions Committee on "Saving for later life" also highlighted that divorced women's pensions are more likely to be lower than divorced men's and that there is no clear reliable data on pension sharing orders made on divorce.

The House of Commons briefing paper on the gender pensions gap notes that there have been an number of proposals to address this gap including:

- **Carer's Credit** – a family carer top-up in addition to National Insurance credits to help women build up their pension.
- **Pension sharing on divorce** - given that pensions are usually people's second biggest asset after property, ensuring that pensions are considered during divorce settlements is an important factor in securing women's income.
- **Protections for cohabiting couples** - better legal protections for couples not married or in a civil partnership, an issue explored in a report by the House of Commons Women and Equalities Committee in 2022. The report argued that complex property law and trust principles often required the "financially weaker partner", which was often women, to demonstrate direct financial contributions to the acquisition of property such as the family home. The report maintained that this can have a

significant financial impact on women in the event of separation and divorce.

- **Support with childcare costs** – increase women's earning power by providing more financial support for childcare. This may enable women to afford pensions contributions or increase working hours to become eligible for employer pension schemes.

9 The partner of a constituent, who paid significant sums into their pension, recently passed away. Their pension halved, leaving the constituent with only half of what their partner had worked all their life to build up. Does that disincentivise people from going down the pension route?

Return on investment into a long-term savings plan such as a pension is a key consideration for when planning for retirement. Inadequate return on investment may act as a disincentive as to why an individual may choose one pension type over another. It is, however, difficult to quantify to what extent awareness over cases such as the constituent would act as a disincentive for investing in pensions.

This briefing paper has already touched on the 'gender pensions gap' and the difficulties experienced, particularly by older women (who may have been in part-time employment or who provided care), in ensuring an adequate income in retirement. Therefore, income received from a deceased partner's pension would be one of the important factors in protecting women's income in retirement. The House of Commons Library have published a briefing paper on 'Inheriting pension rights' in State and private pensions which the Committee may find useful.