



What is your name?

Name:

What is your email address?

Email:

What is your organisation?

Organisation:

University of Stirling

Policy Objectives

Do you think that the Bill will meet the policy objectives? If not, why not? Do you foresee any unintended consequences of any of the policy objectives of the Bill?

Policy Objectives:

I am an economist in the University of Stirling's Management School. Together with [REDACTED] (University of Linz, Austria) and [REDACTED] (Dusseldorf Institute of Competition, Germany), I have researched the effect of automatic enrolment on wages in Great Britain. Previous research has shown that automatic enrolment had a significant positive effect on pension plan participation and contribution rates. We have considered whether it had any unintended consequences on wages, and whether employers were able to shift the cost of their pension contributions to workers, by paying them lower wages. Our full paper is available here: <http://www.economics.jku.at/papers/2024/wp2402.pdf>

We find that employees in larger firms who did not already have a company pension received lower extra pay (such as bonuses, overtime pay and commissions) after the roll-out of the policy. The fall in extra pay offset the rise in pension contributions, so that total compensation stayed the same. In contrast, 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. Our findings are in line with those of other researchers that firms tend to pass increases or reductions in payroll costs (e.g. taxes or benefits) on to employees.

The policy was targeted at lower income employees, who were less likely to have a company pension before auto-enrolment. However, these are the very people more likely to opt out in future if they continue to bear the costs of pensions. On average, they receive a higher percentage of their compensation through extra pay, potentially providing employers with an opportunity to recoup pension contributions. In the long-term this could lead to lower take-home pay as a result of automatic enrolment. We would expect to see similar patterns in Northern Ireland.

Regulation making powers to decrease the age threshold

What are your views on lowering the age upon which an employer has an obligation to automatically re-enrol jobholders into a scheme?

Question 1:

As discussed above, we find evidence that employees in large firms in Great Britain received lower take-home wages as a result of automatic enrolment. We analysed the period 2012-2017, when we can compare the wages of workers in private sector firms that were required to introduce automatic enrolment with workers in firms that were not yet required to do so. The policy was staggered, with the largest firms required to introduce automatic enrolment first. For example, in 2013, firms with at least 650 workers had to introduce automatic enrolment, so we can compare what happened to wages in these firms with wages in firms with fewer than 650 workers. After 2018 all firms had to automatically enrol their workers, and so we no longer have a control group to compare against. Unfortunately, we are therefore unable to analyse the effects of the increasing contributions in 2018 and 2019. Our analysis is limited to the original 1% employer contributions, which applied to a small proportion of employees who were above the original age and earnings limits and did not already have a company pension.

We find a statistically significant effect on extra pay even when the employer contributions were low (1% of earnings), and applied to a small proportion of employees. This suggests that it is likely that large employers, at least, will continue to recoup pension costs if they increase as a result of lower age and earnings limits. As pension costs increase, smaller employers may begin to offset pension costs as well. This will lead to lower take-home wages for young and low paid workers, who may opt out of the scheme as a result.

Regulation making powers to reduce or abolish the lower limit of the qualifying earnings band

What are your views on reducing or abolishing the lower limit of the qualifying earnings band?

Q2:

See comments on previous question

The confirmatory resolution procedure

Do you agree that any new regulations made under the new powers should be subject to the confirmatory resolution procedure i.e. needing the approval of the Assembly?

confirmatory resolution procedure:

NA

Any other comments

Do you have any other comments in relation to the Bill?

any other comments :

If the age and earnings limits are lowered, we would suggest that the effects on wages, as well as participation, are carefully evaluated. A staggered roll-out of lower age and earnings limits (perhaps by firm size, as with the original roll-out of automatic enrolment) would enable researchers to analyse the effects in a similar way to our analysis.

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