# PENSIONS (EXTENSION OF AUTOMATIC ENROLMENT) BILL

## EXPLANATORY AND FINANCIAL MEMORANDUM

### INTRODUCTION

1. This Explanatory and Financial Memorandum has been prepared by the Department for Communities ("the Department") in order to assist the reader of the Bill and to help inform debate on it. It does not form part of the Bill and has not been endorsed by the Assembly.

2. The Memorandum needs to be read in conjunction with the Bill. It is not, and is not meant to be, a comprehensive description of the Bill. So, where a clause or part of a clause does not seem to require an explanation or comment, none is given.

### BACKGROUND AND POLICY OBJECTIVES

3. This Bill makes provision for Northern Ireland corresponding to provisions of the Pensions (Extension of Automatic Enrolment) Act 2023 ("the 2023 Act") which was passed by the Westminster Parliament.

4. Although pensions are a devolved matter, in general Northern Ireland's pensions policy and legislation operate in line with corresponding pension provision in Great Britain in line with section 87 of the Northern Ireland Act 1998. In effect there is a single pension system and regulatory regime across the United Kingdom. Many private pension schemes operating in Northern Ireland are UK-wide schemes. Therefore it is highly desirable that the same provisions are in place in Northern Ireland to ensure parity across both jurisdictions.

5. Automatic enrolment was introduced in 2012 to enable more people to save for their retirement and to make pension saving the norm for most people in work. Minimum contribution rates are 8% of earnings; employers contribute a minimum 3% and employees 5%, part of which includes tax relief. In Northern Ireland in 2021, 73% of employees belonged to a workplace pension scheme.

6. The law requires employers to enrol all their eligible workers into a qualifying workplace pension scheme and pay pension contributions. Eligible workers are those who:

- are not already in a workplace pension scheme;
- are between age 22 and State Pension age; and

- earn more than the minimum earnings threshold (£10,000 per year).

7. In 2024/25, contributions are required to be made on earnings between the lower limit of the qualifying earnings band of £6,240 and the upper limit of the qualifying earnings band of £50,270. Unless they opt-out, employees will build up a private pension through their contributions and those of their employer.

8. In 2017 the Government completed a statutory review of automatic enrolment. The report, "Automatic enrolment review 2017: Maintaining the momentum", was published in December 2017. The report had several key recommendations including: to reduce the lower age limit for automatic enrolment from 22 to 18, and to remove the lower limit of the qualifying earnings band so that contributions were calculated from the first pound of earnings. The measures contained in the 2023 Act arise from the recommendations made by the 2017 statutory review.

9. The Pensions (Extension of Automatic Enrolment) Bill aims to provide the powers to extend automatic enrolment in workplace pensions. The Bill confers regulation making powers to implement reforms to automatic enrolment into workplace pensions by introducing a power to make regulations 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; and

- 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.

10. The proposals to extend automatic enrolment are intended to continue to normalise pension saving among workers; help lower earners build resilience for retirement; support individuals in multiple part-time jobs; and simplify automatic enrolment for employers. Workers will as now be able to opt out of automatic enrolment.

## CONSULTATION

11. The proposals contained in the Bill are seen as a parity measure and correspond to those made in the 2023 Act. 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 measures contained in the Bill and the 2023 Act arise from the recommendations made by the 2017 statutory review.

## OPTIONS CONSIDERED

12. The provisions were developed following options appraisal. Three options were considered –

13. Option 1 – Do nothing: retain the existing automatic enrolment arrangements.

14. Option 2 – Take legislative powers to decrease the age limit at which qualifying workers are automatically enrolled into a workplace pension, and to reduce or remove the lower limit of the qualifying earnings band.

15. Option 3 – Non-legislative option: encouraging the adoption of a zero lower limit of the qualifying earnings band and enrolment from age 18.

16. Neither Option 1 nor 3 would meet the policy objectives; therefore Option 2 is the preferred option.

## OVERVIEW

17. The Bill will amend provisions in the Pensions (No. 2) Act (Northern Ireland) 2008 ("the 2008 Act) to provide regulation making powers which will enable the Department to make regulations to reduce the lower age limit at which otherwise eligible workers must be automatically enrolled and re-enrolled into a pension scheme by their employers, and to 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.

## COMMENTARY ON CLAUSES

### Clause 1: Automatic enrolment: persons and earnings affected

Subsections (1) to (5) of this clause amend the provisions of the 2008 Act, as follows.

Subsection (2) inserts a regulation making power into section 3 of the 2008 Act to enable the Department 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.

Subsection (3) inserts a regulation making power into section 5 of the 2008 Act to enable the Department to decrease the age upon which an employer has an obligation to automatically re-enrol jobholders into a scheme that fulfils the criteria for an automatic enrolment scheme.

Subsection (4) inserts a new section, section 13A into the 2008 Act. This contains a regulation making power to enable the Department to reduce or abolish the lower limit of the qualifying earnings band, contained in section 13(1)(a) of the 2008 Act. It would also enable the Department to make regulations to repeal section 9 of the 2008 Act, as section 9 would no longer be required if the lower limit was abolished. Section 13A(2) allows the Department to make amendments that are consequential to the repeal of sections 9 and 13(1)(a).

Subsection (5) 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.

**Clause 2: Report on the operation of powers affecting age and qualifying earnings**

This clause places a duty on the Department to assess the impacts of changes made by regulations provided for in clause 1 and to lay a report of its assessment before the Assembly.

The report must be laid at least 36 months and not more than 42 months after the coming into operation of the first set of regulations made in accordance with clause 1 of this Bill.

**Clause 3: Commencement and short title**

This clause provides for the commencement of provisions and the short title of the Bill.

## FINANCIAL EFFECTS OF THE BILL

18. There will be no immediate financial implications because the Bill takes enabling powers to implement the proposed changes through secondary legislation at a later date.

## HUMAN RIGHTS ISSUES

19. The provisions of the Bill are compatible with the provisions of the Human Rights Act 1998.

## EQUALITY IMPACT ASSESSMENT

20. In accordance with its duty under section 75 of the Northern Ireland Act 1998, the Department has conducted an Equality Impact Assessment. The Assessment found that the proposals to extend automatic enrolment did not have significant implications for equality of opportunity. A public consultation on the Assessment ran from 18 September 2023 until 11 December 2023. Five responses were received to the public consultation. No adverse impacts to section 75 groups as a result of the proposals were identified.

21. The proposals make provision corresponding to provision contained in the Pensions (Extension of Automatic Enrolment) Act 2023 and are in line with the long-standing principle of parity between Great Britain and Northern Ireland in pensions.

22. The Assessment can be accessed at https://www.communities-ni.gov.uk/publications/pensions-extension-automatic-enrolment-bill-equality-impact-assessment-final-report .

## SUMMARY OF THE REGULATORY IMPACT ASSESSMENT

23. Lowering the age threshold for automatic enrolment will help make pension saving the norm for young people and enable them to begin to save from the start of their careers. Removing the lower limit of the qualifying earnings band will mean more workers would have access to a pension with an employer contribution and greater pension pots,

supporting those with low earnings and multiple jobs. If implemented, the reduction or removal of the lower limit of the qualifying earnings band would increase the pensionable earnings that workers and employers pay pension contributions on, growing total pension savings.

24. Although the legislation will not impose any costs on business at this time, the Regulatory Impact Assessment examines the impact of removing the lower limit of the qualifying band and reducing the age to 18 years old. Using available UK data the Regulatory Impact Assessment estimates that in the first year of the full implementation of the policy there would be costs associated with:

- extra employer contributions of £0.8b;
- extra employee contributions of £0.9b; and
- income tax relief of £0.2b.

25. There may be further fiscal costs reflecting how employees/employers may respond to the change and a small additional business administration cost. The costs would be lower at first if the measures were phased in over a number of years.

## DATA PROTECTION IMPACT ASSESSMENT/DATA PROTECTION BY DESIGN

26. A Data Protection Impact Assessment screen has been conducted. The screen found that a full Data Protection Impact Assessment was not required. It noted that the proposals in the Bill had no new implications for the processing of personal data.

## RURAL NEEDS IMPACT ASSESSMENT

27. A Rural Needs Impact Assessment has been conducted. It noted that there would be no difference in the impact between people living in urban or rural areas.

## LEGISLATIVE COMPETENCE

28. At Introduction, the Minister for Communities had made the following statement under section 9 of the Northern Ireland Act 1998:

*"In my view the Pensions (Extension of Automatic Enrolment) Bill would be within the legislative competence of the Northern Ireland Assembly."*

Northern Ireland
Assembly

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For more information please contact:

Northern Ireland Assembly
Parliament Buildings
Ballymiscaw
Stormont
Belfast BT4 3XX

Telephone: 028 90 521137
Textphone: 028 90 521209

E-mail: info@niassembly.gov.uk

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