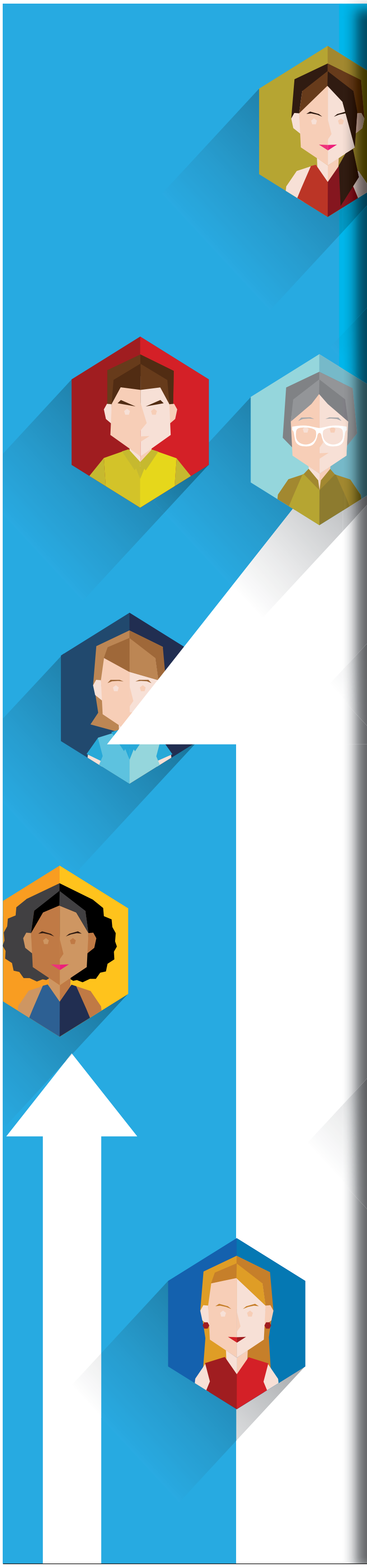


Summary

- Adapting rules to bring in millions of people with multiple lower paid jobs and the self-employed under automatic enrolment (AE), will be a hugely complicated task, but could be achieved effectively by involving HM Revenue and Customs (HMRC).
- The Department for Work and Pensions (DWP) is currently carrying out a review on how best to include these two sets of employees who are currently not covered under AE.
- One view is for HMRC to set something up through tax returns, possibly with Nest as a default option. Removing the AE threshold has also been mooted.
- The government could also consider altering the definition of a worker as defined under Section 88(3) of the Pensions Act, amending the wording of persons entering into a contract of employment to reflect self-employed workers.

Reaching out

Raji Menon looks at how adapting rules to bring in millions of people with multiple lower paid jobs and the self-employed under AE can be achieved

Adapting rules to bring in millions of people with multiple lower paid jobs and the self-employed under automatic enrolment (AE), will be a hugely complicated task, but could be achieved effectively by involving HM Revenue and Customs (HMRC), according to leading industry experts.

The Department for Work and Pensions (DWP) is currently carrying out a review on how best to include these two sets of employees who are currently not covered under AE, and has asked the industry for feedback on the best way forward.

AE rules, which were introduced for the first time in 2012, currently cover some seven million people, and by 2018 an estimated 10 million people are expected to be auto-enrolled.

"There's no denying that AE has worked very well. We now have seven million people covered under AE – so the big picture is hugely successful," Royal London policy director Steve Webb says.

But the next step involving people holding multiple jobs and below the AE threshold of £10,000, and the self-employed, will not be as straightforward, he mentions.

Webb said one way forward would be for HMRC to set up something through tax returns, potentially tying up with Nest.

"Our view is for HMRC to set something up through tax returns because they are able to look at the big picture and work on this, possibly with Nest as a default option," Webb says.

"There are no easy answers for those in the multiple below threshold jobs - this is the messy part of the labour market where the jobs are variable and unpredictable," he adds.

AJ Bell senior analyst Tom Selby says besides the administrative challenge of enrolling people with multiple, lower paid jobs, the other key question was whether it "made sense" to enrol people who are struggling to make ends meet.

"This is a humongous challenge and

if you take a person who has say four to five different jobs, the question would then be how do you facilitate multiple employer contributions and how do you administratively bring this person and others like them under AE," he says.

The simplest solution, he underlines is to remove the threshold. "That way there would be no difficulty for employers in working out whether or not someone should be enrolled, because everyone would be enrolled," he adds.

Besides removing the threshold, Scottish Widows retirement planning expert Jackie Leiper, states that the AE threshold of £10,000 could also be reduced to broaden its scope.

"With a larger number of women working part time and twice as many women as men holding two or more jobs, reducing the threshold would bring thousands more into the scope of AE.

"HMRC could also play a role in aggregating earnings from multiple employments, given the improvements they have made to their tax information collection system, possibly working together with Nest to provide a solution for workers currently outside of the scope of AE" she adds.

Leiper says the current opt-out rates which were under 10 per cent were very encouraging and provided a compelling argument for bringing more people under AE.

Amending the definition of a job holder in the Pensions Act of 2008 Section 1 (1)(a) to remove the wording related to 'under a worker's contract' was the "easiest way" forward, Aries Insight director Ian Neale states.

AE for the self-employed

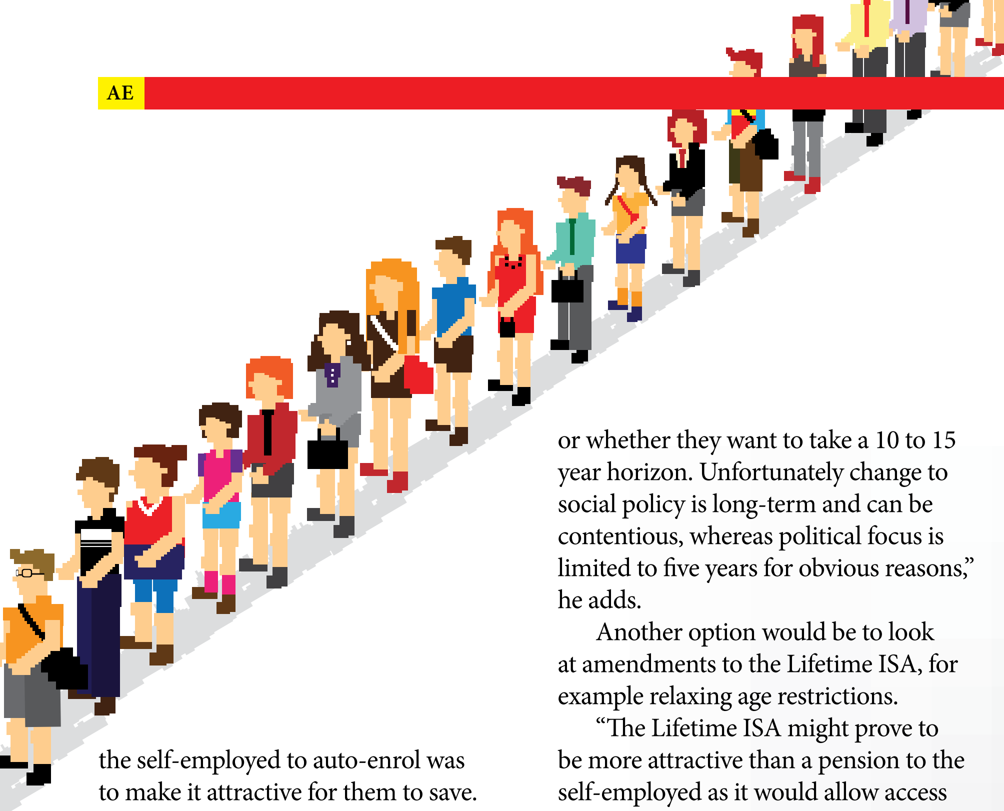
The government could also consider altering the definition of a worker as defined under Section 88(3) of the Pensions Act, amending the wording of persons entering into a contract of employment to reflect self-employed workers, Neale says.

"But the big question is how to ensure people save more for their retirement, as any such measure will undoubtedly be seen as a tax," he adds.

Leiper says auto-enrolling self-employed people would be more challenging than enrolling multiple job holders, with an estimated five million people currently self-employed with no provision for auto-enrolment and just one in seven self-employed people contributing to a pension, according to figures by the DWP.

Leiper says research shows that only 36 per cent of self-employed women against 60 per cent of employed women are saving adequately for their retirement, indicating the depth of the problem in getting self-employed workers to save more for their retirement.

The key, most agree, to getting



the self-employed to auto-enrol was to make it attractive for them to save. Again, HMRC could be involved in the process, which would involve setting up AE with HMRC through tax returns, an idea which seems to have the backing of Pensions Minister Richard Harrington.

In a recent interview, Harrington stated he was in favour of linking pension saving for the self-employed to their tax returns.

Another alternative would involve diverting supplementary national insurance contributions (NIC) to a pensions pot or providing some kind of tax relief on NIC to pay for pensions.

Quantum Advisory partner Phil Farrell says: "An alternative could be the payment of supplementary National Insurance contributions (NIC) which would be paid into an individual pension account to enhance the state pension. Operation would be on a basis similar to the AE regime with the individual having to opt-out."

However, he notes that the recent U-turn by the Chancellor on his announcement to increase National Insurance contributions for the self-employed made such proposals and any others related to tax increases even on a voluntary basis "unlikely" for the foreseeable future.

"The crux of the issue is whether the government wants to look at short-term or whether they want to take a 10 to 15 year horizon. Unfortunately change to social policy is long-term and can be contentious, whereas political focus is limited to five years for obvious reasons," he adds.

Another option would be to look at amendments to the Lifetime ISA, for example relaxing age restrictions.

"The Lifetime ISA might prove to be more attractive than a pension to the self-employed as it would allow access to capital in order to meet the cash-flow needs of a business," Farrell says.

Adequacy of contribution levels

A key issue raised by pension experts is whether contribution levels of 8 percent are adequate. Initially, the AE minimum contribution is 2 per cent, of which at least 1 per cent must be paid by the employer. By 2018, this will increase to a total of 8 per cent, of which at least 3 per cent must be paid by the employer.

"The target of getting people up to the 8 per cent savings by 2018 is laudable, but you can't say 'job done' after that because that level is nowhere enough what is required for retirement. This will mean that people will be working well into their 70s. You can't wait for people to save more as that's something that's not going to happen," Webb says.

Farrell said the government should look at incrementally increasing contributions over the next number of years to get people gradually used to idea of saving more. Ideally, people needed to save a total of around 10 to 15 per cent of earnings, Webb adds.

Farrell notes that the outcome of the review process which concludes towards the end of 2017 would be intriguing.

"It will be interesting to compare the government's thinking and that of the pensions industry. What will also be interesting to see is whether the government has the stomach to take decisions, which are required but will be politically difficult. So we have to wait and see how these things work out."

Neale says unless the government acted quickly to bring more people under AE, there would be a "train crash".

"One way or the other, we all need to save more - it has almost taken a generation since Adair Turner made his recommendations on savings to the point where we are today.

"If that doesn't happen our children and grandchildren are going to be terribly resentful. We are likely to see a further intensifying of this intergenerational divide where old people can't retire because they can't afford to and young people can't find jobs because the older folk who are more experienced are still around to do it."

Written by Raji Menon, a freelance journalist