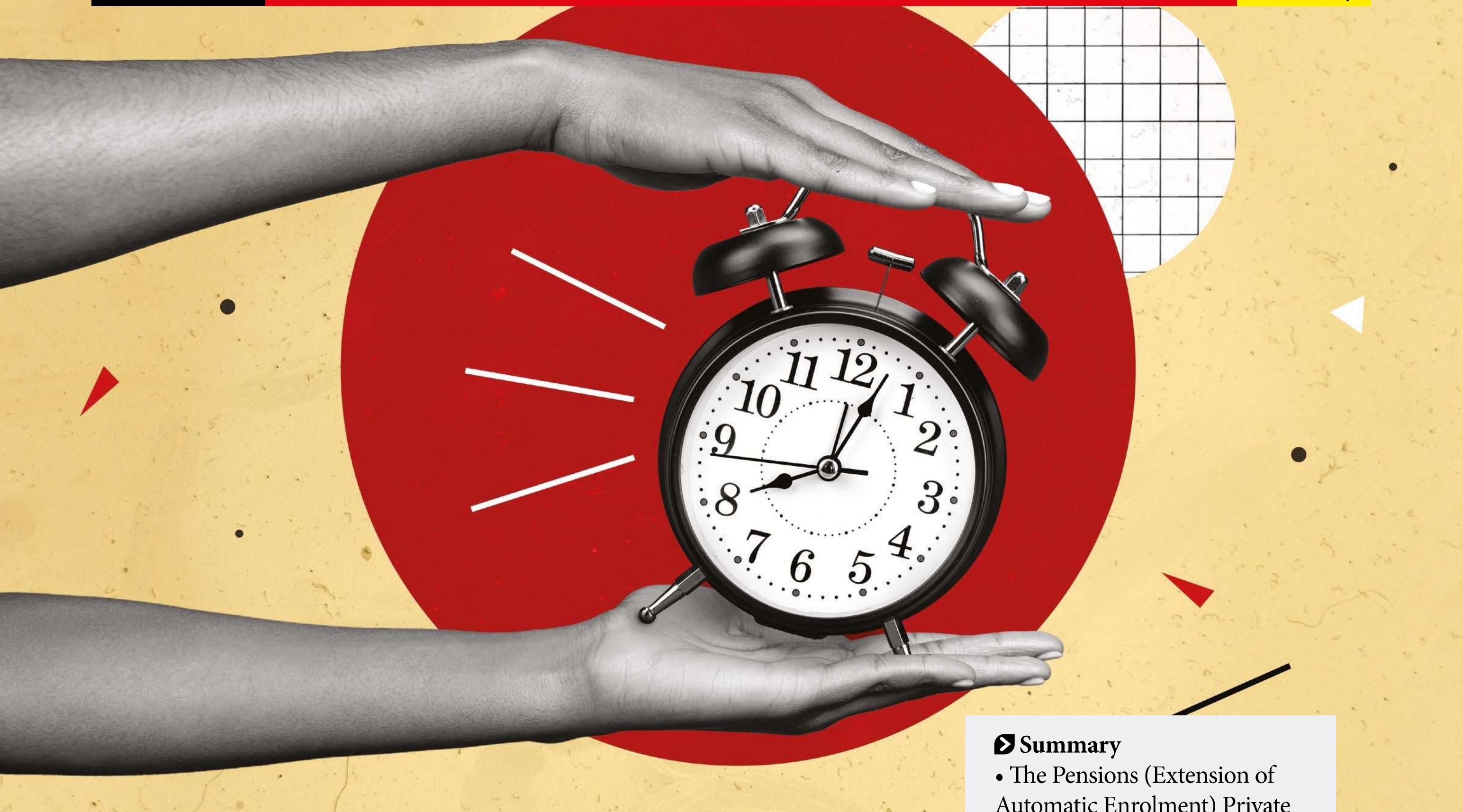

Time's up

With work on auto-enrolment (AE) reforms again delayed, Sophie Smith considers whether AE reforms could be on the horizon for the year ahead, or whether this could be another failed New Year's resolution

Summary
- The Pensions (Extension of Automatic Enrolment) Private Members Bill was recently delayed until March 2023, and further delays seem likely given the current economic and political environment.
- Although the cost-of-living crisis has exacerbated the need for reform, it has also made the potntial impact of such reforms on members harder to justify.
- AE reforms are not enough in isolation and more holistic changes will likely be needed, particularly for under-pensioned savers.

With the start of a new year, the events of the 2010s are becoming increasingly distant. It's been six years since Donald Trump's inauguration, six years since Prince Harry proposed to his girlfriend Meghan Markle, and six years since the 2017 auto-enrolment (AE) reforms were published.

But while Trump has been replaced with President Joe Biden, and the Sussex's have wed, had two children and even launched a hit Netflix documentary, the AE reforms have seen much less progress.

As Cushon director of policy and research, Steve Watson, points out, whilst AE is widely praised as a resounding success, there is appetite for additional reform across the savings landscape.

Indeed, industry experts have increasingly called for the government to introduce the 2017 AE review recommendations, with the Work and Pensions Committee also urging the government to introduce legislation for the reforms "no later than the beginning of the next session of parliament".

High hopes

Although many had placed hopes on the Pensions (Extension of AE) Private Members Bill, the government recently confirmed that the second reading has been delayed until 17 March 2023.

Pensions and Lifetime Savings Association (PLSA) head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark, highlights this delay as a disappointment, stressing that "we're not going to get the reform we need as quickly as needed, even where there's broad consensus on what is needed".

Barnett Waddingham partner, Martin Willis, also warns that this delay is likely to negatively impact those who

need support in retirement the most – those on lower salaries, who start work earlier in life and those who work across multiple simultaneous employments.

"It is also likely that the delay will serve to preserve the gender pensions gap," he adds, warning that "these changes are long overdue".

Adding to this, Pensions Administration Standards Association (Pasa) director, Paul Sturgess, says that although the delays are understandable at a practical level, they do not drive comfort, especially when there has been so much change in the government.

There is still some optimism, however, as Watson says that, while frustrating, the delay is likely to be more to do with the economic climate rather than a change of heart in government, pointing out that the bill was also part of the last Conservative manifesto.

However, Harrington-Clark notes that despite a supportive DWP, parliamentary time remains key constraint, and one that lies out of the control of the pensions industry.

"It is always just about space and time," she stresses, warning that "the longer you leave it, the worse it gets", with the repeated delays becoming "very, very difficult to justify".

A rocky landscape

And further delays seem likely, as Pensions Management Institute director of policy and external affairs, Tim Middleton, points out: "Since summer 2022, we have seen Guy Opperman's resignation, Opperman's reappointment, the brief era of Alex Burghart and the advent of Laura Trott. Although it appears that Trott is enthusiastic about AE reforms, it is inevitable that a period of disruption and instability will result in delays to the implementation of policy."

Echoing this, Sturgess says that, given all the macro uncertainties and government changes, while it is still technically possible for the bill to be laid before the end of parliament, it is perhaps not likely, warning that a general election could at the very least slow it down.

Pensions Policy Institute (PPI) senior policy researcher, Lauren Wilkinson, also suggests that it delays are possible if other areas take priority or if there is governmental changes.

This seems increasingly likely, as Middleton warns that the current cost-of-living crisis, the war in Ukraine and the political turmoil that has followed since the resignation of Boris Johnson have completely refocused the government's priorities over the remainder of this parliamentary term.

"Over the short term, the public is more likely to appreciate support with personal debt and the cost of domestic fuel. Realistically, reforms to AE are unlikely to be made before the next general election," he states.

A missed opportunity?

And the government may have already missed its chance, as People's Partnership, provider of The People's Pension, director of policy, Phil Brown, argues that the bigger issue is the cost-of-living crisis, hard on the heels of Covid, stating: "It's sensible to make plans for the future of AE right now but no one can argue for immediate increases in pension saving during the current cost of living crisis."

Willis agrees, acknowledging that the cost-of-living crisis makes increasing contributions to pensions challenging, both for employees and employers.

"However," he clarifies, "this doesn't mean that an element of the system, that disadvantages those who need support, shouldn't be addressed. Consideration should be given to a short-term relaxation on the need for employee contributions to be paid in order to receive minimum employer contributions."

Wilkinson also says that, for low earners in under-pensioned groups, in particular, it should be recognised that it may not currently be appropriate to default them into saving and divert income away from current needs.

"Although it also needs to be recognised that inequalities experienced by low earners in under-pensioned groups are likely to be exacerbated by the current economic situation so the gap could increase further," she clarifies.

Echoing this, Now Pensions head of PR and campaigns, Samantha Gould, warns that while the current economic circumstances mean it is challenging for the government to implement potential remedies, doing nothing is not an option.

"Action is needed now to reduce the pensions gap and allow everyone to enjoy the comfortable retirement they deserve," Gould says, suggesting that the removal of the £10,000 earnings threshold would have the biggest and most immediate impact to bring more people into workplace pension saving.

Adding to this, Harrington-Clark says that while there are some arguments to suggest that the delay to AE reform could have had a protective effect on incomes, it is unlikely to outweigh the potential loss in living standard at retirement.

Instead of delaying change altogether, Sturgess suggests that "perhaps the key

is not to deprioritise the discussion but to give extended advance notification of changes so people can prepare, lest we forget that people who enter retirement with inadequate pensions are the very same people that a cost-of-living crisis will punish most."

Adding to the list

And broader changes could still be needed, as Middleton points out that there are also ongoing concerns around the "clear gender imbalance", the rise of the gig economy and issues around self-employed saving, as well as considerations around the dashboards.

Sturgess agrees that although AE reform is a good start, broader change is probably needed, noting that the risk transfer to members that has occurred over the past 25 years has been unchecked and the options available to members give them more opportunities, but also greater risk.

Particular concerns have been raised around supporting under-pensioned groups. Wilkinson explains that these savers are likely to need be supported to achieve adequate retirement outcomes, after recent modelling suggested that for those on median earnings, contribution rates may need to be around 20 per cent in order to reach target replacement rates, or more depending on working patterns.

"Encouraging savers to increase their contribution rates, either through communications or more direct action, such as introducing opt-up or opt-down mechanisms, could improve outcomes for those who are able to contribute more," Wilkinson continues.

"However, for people in under-pensioned groups who are more likely to be unemployed or on low earnings, greater support may be needed in terms of means-tested benefits to ensure adequate retirement outcomes."

The industry may also need to look further than pensions, as Brown suggests that "there is no pure pension solution for Generation X", explaining that while the reform of AE would likely have a positive impact for workers under 40, it would have less of an impact for older workers.

Harrington-Clark echoes this, suggesting that the 2017 reforms should form part of a wider suite of components.

"The ideal circumstance would need to be a full review, including the 2017 AE reform, but that's the minimum," she says, warning that a limb-by-limb approach could result in unintended consequences.

"Over the short term, the public is more likely to appreciate support with personal debt and the cost of domestic fuel. Realistically, reforms to AE are unlikely to be made before the next general election"

She explains that looking at the earnings trigger in isolation, for instance, could provide evidence that is both too high and too low, warning that a suboptimal choice could be made if not considered holistically.

"I don't think it's implausible to do it that way and it may be pragmatic," Harrington-Clark acknowledged, emphasising however that "there are some mechanisms here that are pretty complex and have very, very mixed evidence associated with them, so the government would need to be careful about doing it in that way".

In particular, Harrington-Clark draws attention to the PLSA's *Five Steps to Better Pensions* report, which recommended reforming the state pension to ensure everyone achieves the minimum retirement living standard, alongside broader changes to AE reform, and additional policy interventions for under-pensioned groups, including women, gig economy workers, self-employed people.

Watson agrees, stressing that there is a growing understanding that reform can't be just about pensions, stating: "Pensions by themselves do not meet the savings needs of many people – we need a new approach to workplace savings more generally. We need to take a longer-term view when it comes to financial resilience, not just focusing on it in retirement but using workplace savings products to build a financial buffer throughout our working lives."

There are also steps that the industry can take to support members in the meantime, Willis warns that "without support around the complex choices our pensions legislation presents to people, even large pots may fail to meet member needs because of poor decision making".

This is echoed by Harrington-Clark, who emphasises the importance of engagement campaigns, such as the recent Pension Attention campaign.

However, she clarifies that these efforts "do not replace strategic policy reform", emphasising the need for the industry to prepare arguments for greater change, and reach a consensus.

"The key thing that we can do as an industry is rally around those things that we all already support, and also have detailed, hearts-on-the-table type conversations about what things we do and don't agree on, or that we just don't have the evidence for yet and gather it so," she stresses.

Adding to this, Gould highlights the slow progress over the past decade as demonstration of the importance of making plans today to improve inequalities over the long-term, even if policy changes cannot be implemented until the economy has stabilised.

"It takes a long time for structural changes to the pensions framework to affect the ability of people to build their pensions pot," she says. "Yet it is vital that thought is given to potential policy solutions, even in these challenging times."

Written by Sophie Smith