Driving forward

Summary
- Gig economy employers could soon be required to provide pensions to their workers, along with other standard benefits such as holiday pay and the minimum wage.
- Between uncertainty over which employers will be joining Uber and how many employees will qualify, it remains unclear just how many gig economy workers will commence pension saving.
- While schemes and providers have the apparatus to deal with the influx, we could soon see savings vehicles tailor-made to provide the flexibility that the self-employed and gig economy workers might find desirable.

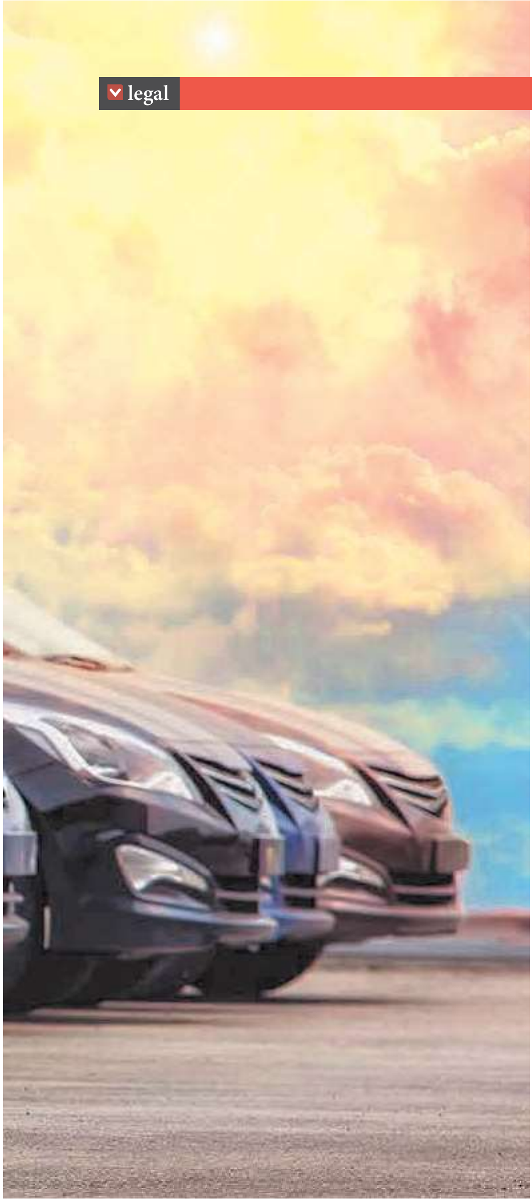
Duncan Ferris explores what the Supreme Court's recent ruling in favour of Uber drivers in their quest to secure employee benefits could mean for the gig economy and the world of pensions

The legionaries of ancient Rome were a force to be reckoned with. Whether facing off against Gallic tribes, masses of Celtic warriors or Greek hoplites, the superior organisation of the soldiers from the Italian peninsula meant they almost always held the advantage in a pitched battle. One of their main advantages was that the force had become a professional army under the great Mediterranean empire's first emperor, Augustus, as he did away with the civilization's old republican system.

This meant that the full-time soldiers served for a fixed period before being given a discharge benefit, amounting to the equivalent of 12 years of service pay in the 1st century AD, and often a plot of land on which to live out their remaining years. This early form of professionalism and pension provision had a huge effect on the empire, forcing its governing apparatus to find land and sesterces for its loyal troops' retirement.

Recent developments for gig economy workers, who have so valiantly soldiered on through the coronavirus lockdowns making all of our lives easier by driving us to appointments, delivering us parcels and bringing us delicious takeaways, could also have major implications.

Following a drawn-out legal battle



with representatives of its legions of drivers, Uber has now confirmed that it will be giving them pensions. It took a February Supreme Court decision to finally drive the ride-hailing app into action, with the court ruling that Uber's drivers were not self-employed and thus had the right to be offered pensions and other benefits by their reluctant employer. Of course, this does not just mean that drivers will now be allowed access to pensions through Uber, as the ruling means they should also be able to receive the minimum wage and holiday pay.

Ramifications

On the face of it, the pensions-related results of the ruling are simple. Uber drivers who earn more than the minimum earnings threshold of £10,000 per annum are set to be auto-enrolled into pension schemes. Considering the fact that Uber will now have to pay its drivers minimum wage, this means that drivers who work for 22 hours per week or more will qualify for auto-enrolment.

But beyond this, there are consequences for the gig economy as a whole. The ruling has set a precedent that workers who were previously permitted to be classified as self-employed by the platforms through which they engaged in gig economy work may now have the right to be seen as fully-fledged employees and enjoy all the benefits that come tacked on to this label.

Aegon head of pensions, Kate Smith, elaborates: "The Supreme Court ruling that Uber drivers should now be considered 'workers' rather than self-employed could have a ripple effect throughout the whole of the gig economy. Uber drivers will now not only have rights to holiday pay, but also other workplace benefits such as employer pension contributions. Other employers who participate in the gig economy will need to rethink about how they reward their workers.

"In the UK pension provision is largely delivered through the workplace, and the self-employed, including gig workers, have previously been excluded from the government's flagship auto-enrolment policy.

"This reclassification however is another step towards opening the doors to auto-enrolment for all of the gig economy, giving them the opportunity to save for retirement with the important boost of the right to a minimum 3 per cent employer pension contribution."

Small pots

One apparent issue with an influx of pensions linked to gig economy workers could be the exacerbation of the 'small pots' issue that the pensions industry is currently facing.

Smith explains: "The small frozen pots issue has been exacerbated by auto-enrolment, as nearly every job comes with a pension. Small pots are a factor of low contributions, low earnings and frequent job changes. Auto-enrolling gig-workers into workplace pensions could increase the number of small frozen pension pots.

"It will become even more important for the government, with industry support, to implement automatic automated solutions to consolidate these small pots. Pension dashboards will be part of the solution, helping people keeping track of their multiple pensions."

It seems likely that this exacerbation will take place, particularly as gig economy employers are likely to shell out wages on the low end and that the type of employment they offer is commonly used for part-time hours rather than full time. Indeed, figures published by the Department of Business, Energy and Industrial Strategy in 2018 showed that 87 per cent of gig economy workers had earned less that £10,000 in the past 12 months, with 41 per cent having earned less than £250 over the period.

However, it would be wise to take these figures with a pinch of salt, as the amount of people reliant on the gig economy is likely to have changed under the yoke of Covid-19. Employment and labour market figures from the Office for National Statistics show that the number of payroll employees fell by 693,000 in the 12 months preceding February 2021.

The Fairwork Foundation's report, titled *The Gig Economy and Covid-19: Looking Ahead,* noted that similar increases in unemployment in the United States had led to increased competition on gig economy platforms as those who had lost jobs scrambled for sources of income. This in turn led many workers to sign up on multiple platforms in order to increase their chances of earning. If these circumstances are reflected in the UK's gig economy workforce, it appears that it will be even more challenging for workers to build anything beyond a small pension pot.

However, it remains to be seen whether the gig economy will retain the size of its pandemic-era workforce, or whether competition for gigs will decrease and workers will have an easier time amassing enough to make substantial pension contributions.

Of course, the effect of the pandemic on different segments of the gig economy has varied, with Uber bookings for Q2 2020 down 73 per cent on the same period 12 months earlier but orders from takeaway platforms, such as Deliveroo and Just Eat, soaring.

However, while the influx of gig economy workers into the pension system could lead to more small pots, Nest director of strategy, Zoe Alexander, states that this is not a reason for them to forego the chance to put money away for retirement.

She explains: "Bringing gig economy workers into automatically enrolled saving would likely increase the number of small pots in the system: but that is certainly not a reason not to enable this group to start to save in a structured way.

"Nest is working with industry peers to look for ways to reduce the number of small pots in the system in ways that work for savers. In the meantime, it is important that everyone who is eligible has the chance to build up a pension pot as a basis for a better retirement."

New members

In the aftermath of the court case, Uber chief executive, Dara Khosrowshahi, penned a piece in *The Evening Standard* in which he stated: "This is a significant improvement in the standard of work for UK drivers. But I know many observers won't pat us on the back for taking this step, which comes after a five-year legal battle. They have a point, though I hope the path that we chose shows our willingness to change."

This change, and the possibility of further gig economy employers following suit, will of course lead to an influx of new pension savers. But how easy will it be for the pensions industry to deal with this wave?

Nest head of service delivery, Robin Lewis, comments: "We have a straightforward online system for setting up, enrolling members and making contributions – this means we are able to support thousands of new employer and member accounts each month and have done so successfully for a number of years.

"Nest was designed to deal with administrative challenges. We were designed to meet the challenge of on-boarding hundreds of thousands of employers when auto enrolment was introduced. We are already helping almost 16,000 self-employed people prepare for their retirement. We are not able to comment on other schemes' administration."

Smith agrees, as long as the employers step up and play their part, stating: "Automatic enrolment processes are embedded into pension providers, so the administrative challenges aren't likely to be too substantial provided the gig employer is able to provide all the required information on a timely basis."

But when it comes to the type of scheme that Uber drivers and their fellow cohorts of gig economy workers may be headed for, it appears that, further down the line, there could be scope for something a little unorthodox.

Nest Insight director of research and innovation, Jo Phillips, says: "Nest Insight is currently conducting research, supported by the Department for Work and Pensions, which aims to test a range of approaches to encourage and enable retirement saving in a way that fits with self-employed people's contexts and needs.

"Whilst this work focuses on the self-employed population as a whole, the programme and its findings are likely to have broad relevance, including potentially for gig economy workers."

She explains that the research has indicated that "control and flexibility" would likely be important features for these workers, noting that 57 per cent of those surveyed liked the idea of automatically diverting income into retirement saving and "a hybrid savings tool combining a liquid account and a pension had broader appeal than a pension-only option".

Phillips adds: "The next phase of our research will involve technology-based trials testing the appeal and effectiveness of different tools and automated approaches designed to make it easier for self-employed people to save via the platforms and services they already use to manage their money."

Smith is less optimistic, stating simply that: "In reality, gig employers are likely to use master trusts designed for the mass auto-enrolment market."

Whether they do go on to enjoy tailor-made retirement savings vehicles or not, it seems clear that it is a great positive for the financial health of our population that we can now welcome a portion of our legions of gig economy soldiers into the world of pensions.

Written by Duncan Ferris