Auto-enrolment's Hokey Cokey

With auto-enrolment now fully rolled out across the country, and six months since the first increase to the minimum contribution rate, Natalie Tuck looks at opt-out rates and the policy's safety net

Everyone will be familiar with the children's party song, the Hokey Cokey, and the idea of being in, out, in, out; much like this childhood classic, for those who don't want to save into a pension, that's what it's all about.

The number of people involved in a Hokey Cokey jig with the pension system is relatively low however, compared to those that are happy to put their whole selves in and remain in.

Despite an increase to the minimum contribution rate in April this year, from an employee contribution rate of 1 per cent to 3 per cent, Altus Consulting head of retirement strategy Jon Dean notes that opt-out rates appear to be "holding at a steady pace" around 8 and 9 per cent.

Recent research by the Office for National Statistics, however, points to inertia for the continued high success rate of auto-enrolment. It found that over a third (37 per cent) of eligible employees are unaware that they have been enrolled into a pension by their employer.

Quilter head of retirement policy Jon Greer says there can be "little doubt" over the power of inertia when it comes to auto-enrolment. He warned, however, that the "stark statistic" shows that inertia can be dangerous. "It needs to be paired with education so the public actively engage in their retirement savings," he adds.

The Pensions Regulator has also warned about the number of employers encouraging employees to opt out of their workplace pension since 2015, as it has received over 100 reports of cases where this has happened. A freedom of information request revealed that over the three years it found 99 cases, which "primarily" related to inducement and 15 that related to inducement.

Between the period 1 April 2015 to 31 March 2016 the regulator said there were 12 inducements, compared to 38 between 1 April 2016 and 31 March 2017 and 64 between April 2017 and 31 March 2018.

For those that do choose to opt out, the government's policy has a net to bring people back into a pension scheme. Every three years companies must re-enrol employees who previously opted out of the scheme.

Royal London pension specialist Helen Morrissey believes that re-enrolment has "an important part to play" within auto-enrolment. She highlights the most recent figures from the regulator, which reveal a total of 572,000 employees have been re-enrolled up to August 2018.

"Participation rates are already high among the eligible population but re-enrolment will be vital in catching those people who have opted out in the past and engaging them with their pensions," she says.

With opt-out rates so low, and a safety net that will sweep up those who opt-out every three years and enrol them back in the scheme, is there a need for compulsion? It is the case in Australia, a country the UK looks up to when it comes to saving for retirement.

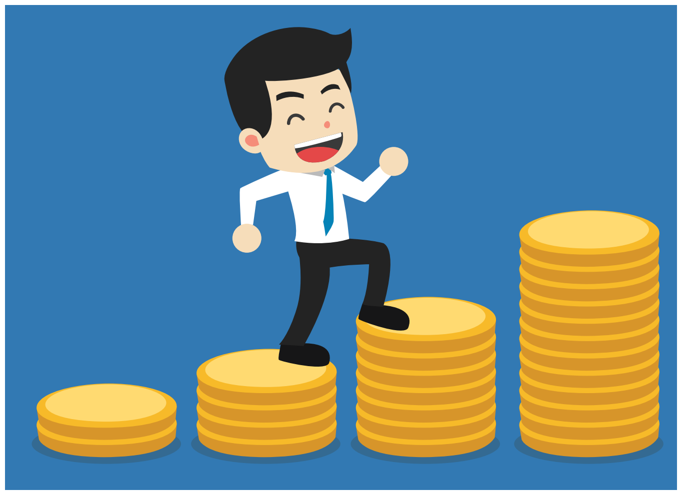
LCP partner, Bob Scott, certainly believes that following Australia's lead is an option for the UK. "From modest beginnings in the early 1990s, Australian employees now enjoy regular retirement savings at circa 12 per cent of earnings."

However, Dean believes that compulsion is not necessary, given the low opt-out rates, adding that "we should respect that many people will have rational reasons for opting out". But with no immediate plans for the UK to make auto-enrolment compulsory, it looks like the Hokey Cokey pensions jig is here to stay.

Written by Natalie Tuck

The minimum auto-enrolment contribution rate may have increased to a combined 5 per cent in April, but the experts say there's still a long way to go before savers can guarantee an adequate income in retirement

AE contributions: Keep on climbing



Ever the since the introduction of auto-enrolment there have been calls from within the industry for contributions to increase, and warnings of people 'sleepwalking' into a retirement that will leave them with an inadequate income due to insufficient contributions.

There are debates on the 'magic number' for contributions, whether that is half your age or 12 per cent, or if there needs to be clearer savings targets based on people's expectations in retirement, to help them tailor their contributions to meet their demands.

There are also a growing number of voices calling for matched employer contributions. Currently, employees contribute 3 per cent, whilst the employer adds 2 per cent. This gap is set to widen further in April 2019, when employees will contribute 5 per cent, with employers paying in 3 per cent.

It is an argument backed by the Pensions and Lifetime Savings Association. Its director of policy and research, Nigel Peaple, says the association believes contributions need to rise to 12 per cent, with an equal split between employers and employees.

Research by the PLSA found that 21 per cent of those with a workplace pension contribute more than their employer; 36 per cent of employees said their employer matches their contribution, and 26 per cent said their employer pays in more than them. Just over half (55 per cent) of those working believe their employer should be paying more into their pension than at the moment.

Altus Consulting head of retirement strategy Jon Dean also supports the idea: "I'd like to see minimum default contributions increasing to 12 per cent gradually over the next few years and in equal proportions between workers and employers. An option to opt down should be incorporated into the member journey, as well as opting out. Contributions should also be deducted from full basic pay, not just band earnings, to generate more meaningful pot sizes."

There is also the case of the self-employed, who are grossly under saving for retirement. Recent research from Prudential found that 31 per cent of the self-employed plan to rely solely on the state pension during retirement. With self-employed workers making up around 15 per cent of the UK workface, it paints a worrying picture.

In the party's last manifesto, the Conservatives promised to make auto-enrolment available to the self-employed, but are yet to do so. The government's review of the policy, published in December 2017, said it will adopt a 'test and learn' approach to find the most effective way to encourage the self-employed to save for a pension.

Since then, Pensions Minister Guy Opperman has called on the industry to find a self-employed savings solution. "We can't do this on our own, government can't formulate policy without your help. I want you to try and feel your power. What you are doing today is formulating policy, without any shadow of a doubt."

But what is the answer? LCP partner Bob Scott highlights a report by the Resolution Foundation, published in May, which called for a policy to require firms contracting for self-employed labour to make pension contributions. "Those measures would undoubtedly help but more thinking is needed about savings as a whole in order to embrace the whole working population," Scott notes.

With the government tied up in Brexit negotiations, as Opperman said, the industry is needed more than ever to solve the self-employed savings crisis before it's too late.

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