ASSOCIATION OF CONSULTING ACTUARIES

PRESS RELEASE

ACA RESPONSE TO CONSULTATION SEES OPPORTUNITIES TO BOOST GIG ECONOMY PARTICIPATION IN AUTO-ENROLMENT

23 March 2017: In a response to the DWP's *Review of Auto Enrolment – initial questions* consultation, the Association of Consulting Actuaries (ACA) has outlined a way in which more Gig economy workers might be enrolled into workplace pensions. The response also calls for greater flexibility in the way AE contribution rates are applied, ahead of a longer-term plan to increase minimum contributions.

Key points in the response are:

- **Bringing self-employed into AE**: We do not think that affluent self-employed professionals are the target demographic for automatic enrolment but we do believe that contractual arrangements for lower paid workers are sometimes deliberately structured as self-employment to prevent obligations such as the minimum wage and pension contributions and that this should be addressed. However, our view is that there is a way to address retirement provision for individuals working in the gig economy in advance of tackling the challenge of more traditional self-employed individuals, for whom a more radical solution might be needed.

  The gig economy has been enabled by the internet and mobile communications with a provider (assumed to be a company) that offers a service and bills online. The service is then often provided by a self-employed individual who is paid by the provider company. There is therefore a clear mechanism by which the quasi-employer could fulfil a similar role to an employer in automatic enrolment. Because the self-employed individuals that would be enrolled in a pension scheme through this approach would still be able to opt out, we believe it would be appropriate to ensure that at least part of the pension contributions were attributed to the quasi-employer (and Parliament might want to regulate the proportion of any costs that could be imposed on the workers).

- **AE contribution rates**: There is a particular risk in the scheduled increase in the minimum level of automatic enrolment contributions due in April 2018 and April 2019. There is some concern amongst employers and our members that opt out rates may increase significantly at those times. We recommend that the review should consider a means whereby employers staging in 2017/18 are able to phase in their minimum automatic enrolment contributions over perhaps a 3-year period. New businesses should also be considered for such a phasing-in period.

  However, we do not believe that the current level of minimum contributions will be adequate to provide satisfactory retirement benefits for most people. Modelling suggests that a typical 25 year old needs to save 15% to 18% of earnings to maintain their standard of living in retirement from age 65, with a full State pension. We would therefore wish to see an increase in contribution rates in the long term and would ideally like to see the review set out a pathway from 2019 onwards for probably a decade ahead.

We also believe that it could be helpful to offer an opt-down facility for employees facing an all or nothing choice to pay a dramatically increased contribution rate in 2018 or opt-out of their pension scheme entirely. We believe this approach could keep a substantial number of current members within the retirement saving environment with the increased contributions being implemented more gradually for those who might otherwise opt-out, particularly bearing in mind the current economic climate and uncertainty.

We also believe the review should consider whether it might be helpful to introduce future workers to automatic enrolment contributions gradually, as has been done for the initial exercise. For example, workers below the current age for automatic enrolment might be included on a lower contribution rate initially, rising to the standard level by age 22.

- **AE earnings trigger**: we have suggested in previous representations to Government that the earnings trigger should be reduced to around £5,000 - £6,000 pa and that this should be coupled with the removal of the lower earnings deductible. The new State pension will not provide anything like an adequate retirement income for the vast majority of people. Without private pension savings, very many people will continue to rely on other State benefits in retirement, the level of which and their persistency being very uncertain. The expectation must also be that the State Pension Age will move upwards in the years ahead, underscoring the need for public policy to encourage private savings at all income levels.

- **Taxation**: It would also be helpful if tax policy complemented and supported the automatic enrolment initiative. Added complexity, anomalies and negative consequences arising for even a limited number of members can disproportionately diminish the positive perception of pension saving.

A copy of the ACA's full response is available at www.aca.org.uk (see 'Consultation Responses').

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About the Association of Consulting Actuaries (ACA)

Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of private sector defined benefit pension schemes. The ACA is the representative body for UK consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

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