

PRESS RELEASE

Moves in the right direction, but still over 11 million private sector workers will be outside of auto-enrolment for years ahead...

ACA WELCOMES AUTO-ENROLMENT CHANGES, BUT QUESTIONS WHETHER THEY ARE SUFFICIENT

17 December 2017: The Association of Consulting Actuaries (ACA) welcomes the Government's announcement to extend auto-enrolment (AE) to younger employees and to review contribution levels once the increases in April 2018 and 2019 have taken place. However, whilst for those earning over the earnings trigger (£10,000pa) all earnings will become pensionable and potentially boost pension outcomes, this will widen the gap in pension savings between those on lower incomes, who still will be excluded from auto-enrolment. With apparently little decisive action also to include more self-employed in AE, this means upwards of 11 million private sector workers will continue to be dependent on the State pension, other uncertain benefits and whatever voluntary savings they make for many, many years ahead.

ACA Chairman, Bob Scott, commented:

“Yes, the announcement is positive news, but we would have liked to have seen both a greater commitment to bring more workers into the AE world and further phases announced to raise contribution levels, so both businesses and employees can plan ahead. We recognise that there are concerns about both opt-outs and costs in so doing, but that is why an holistic approach is needed, with Government playing its part by taking actions over the same time-frame to reduce costs falling on businesses and employees.

“Importantly, we also see the need for greater flexibility to ease the financial pressures on businesses still having to find large sums of money to maintain defined benefit schemes. Easements there will give room for more spending on open DC schemes. And, as our submission to the Intergenerational Commission proposes (see www.aca.org.uk ‘consultation responses’ page, 15 December 2017) we also see the need for further flexibilities for younger employees in pension arrangements to be able to draw on some of those savings to meet shorter-term financial pressures, such as home purchases. Allowing this, would in our view mean fewer young people would be turned off pension savings as contribution rates increase necessarily over time.”

ACA's recent *2017 Pension trends survey* of 466 employers with 760 pension arrangements found some worrying trends with employee opt-out rates from AE rising towards 1 in 4 at smaller firms, with many employers expecting rates to rise as minimum contributions increase in April 2018 and 2019. And post-2019, fewer than half the employers supported increases in minimum AE contributions above 8% of qualifying earnings, a level which the ACA and many other bodies say is insufficient to generate an adequate income in later life.

ACA Chairman, Bob Scott, added:

“Our survey results point to the need for a gradual, but essential increase of the default level of contributions into defined contribution schemes. This is needed to ensure that many more people save sufficient amounts for an adequate retirement income. A gradual increase in minimum contributions to eventually around 16% of earnings should be a target. Without commitment from government to

ensure that sums saved into AE are meaningful, we see little prospect that as a society we will be able to address the fears of a growing gulf in retirement incomes from one generation to the next.”

The ACA survey's final report is available at www.aca.org.uk (research & surveys page).

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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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