2016/17 Smaller Firms' Pension Survey Final Report

Pension survey of smaller firms with fewer than 250 employees finds big policy challenges remain with huge numbers missing out on workplace schemes…

MILLIONS OF PRIVATE SECTOR EMPLOYEES TO MISS OUT ON MINIMUM WORKPLACE PENSION SAVINGS SCHEME…

1 February 2017: A survey published today has exposed weaknesses in the coverage amongst private sector employees of the Government's pension auto-enrolment (AE) policy, which will particularly affect the numbers of employees that will be enrolled into schemes over the next year as auto-enrolment is extended to around a further 1 million small employers. The survey, conducted by the Association of Consulting Actuaries (ACA), found that unless the Government's 2017 review of AE reduces the earnings trigger – the point below which employees are ineligible for auto-enrolment (currently £10,000pa) and somehow extends the scheme to cover the rapidly rising numbers of self-employed, around 12 million private sector workers will be outside the AE tent by mid-2018.

Whilst AE has been a success to date in adding some 7.2 million employees to the ranks of workplace pensions, it is estimated that, based on ONS figures, over 40% of employees of micro employers – around 840,000 firms with fewer than 5 employees – earn below £10,000pa. These employees are not eligible to be auto-enrolled into workplace pensions and with the survey finding employee opt outs rising to over 21% of eligible jobholders in smaller firms, it seems likely that upwards of 60% of employees amongst the vast majority of firms left to stage may miss out on joining the ranks of pension savers.

Commenting on the survey findings, **Bob Scott, Chairman** of the **Association of Consulting Actuaries (ACA)** said:

"Many have commented to date about the generally low level of pension contributions being saved into most AE schemes, and rightly so. Our survey underscores that in smaller firms the problem is heightened, with those joining AE generally at or near the minimum levels of total contributions, which amount to less than 2% of earnings at present.

"Worse still, the survey findings point to both higher levels of opt outs than has been the case when larger employers enrolled employees, alongside huge numbers excluded from AE on income grounds alone. This is beginning to be reflected in the monthly TPR figures, with the latest months' showing those ineligible for AE rising towards 40%.

"In our survey report, we make a number of recommendations that we hope the Government will consider in its 2017 AE review, including reducing the earnings trigger to boost the numbers eligible for AE, and measures to simplify and add greater flexibility – particularly when minimum contributions are set to rise in 2018 and 2019. We also believe that the Government, given the uncertain economic backcloth, may need to plan ahead and build in both tax and NI adjustments into future spending plans so as to encourage greater private pension saving in the years ahead.

"The Government needs to be absolutely straight with the public. The new State pension, whether triple or double locked, 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. And, whilst we would like to see greater flexibility as to when the State pension can be drawn, the expectation must be that the State Pension Age will move upwards in the years ahead, doubly underscoring the need for greater private savings to be encouraged at all income levels by public policy."

There were a number of other worrying survey findings, including:

- **Only 15% of small firms support increasing minimum AE contributions after these reach 8% of qualifying earnings in April 2019.** This finding and others detailed in the report prompted a number of ACA recommendations for the future (see pages 8 – 9 of the report, featured at the end of this release).
- **Only 32% of small firms support lowering the earnings trigger to below £10,000pa to extend eligibility to join AE.**
- **26% of the smallest firms (those with fewer than 10 employees) said AE will impact on employment levels.**

Bob Scott added:

"The survey results make it absolutely clear that the pensions industry and Government must increase their efforts to convince the public of the essential need to save more for their later years. This may involve many people having to review their spending patterns and life-style choices. Whilst we sympathise with the financial pressures on businesses of all sizes in supporting higher pension contributions, employers too need to help more, particularly if the Government and Regulator contribute respectively through fiscal measures and applying genuine simplicity. What as a society we cannot afford to do is to accept that millions of private sector employees are totally financially unprepared for their retirement years."

Some 1.3 million firms with fewer than 250 employees, alongside the self-employed, employ around 60% of the UK private sector workforce and make up just under half of the UK's private sector turnover. Over 900,000 of these small firms still have to auto-enrol their employees into an AE scheme. At present, only a minority of small firms offer a pension scheme and recent estimates suggest fewer than ½ million of the UK's 4.8 million self-employed now save in a private pension.

The ACA survey was conducted over the summer of 2016 and received responses from 455 smaller firms. The survey report, *The Missing Millions*, is available at www.aca.org.uk (Research and 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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Appendix:

ACA 'TEN POINT' POLICY RECOMMENDATIONS

Recommendation 1: On grounds of efficiency and cost, it is difficult to justify micro employers being included in the auto-enrolment project especially if the earnings trigger remains at a level excluding over 40 per cent of their employees. It would seem sensible if the upcoming review looks at how for micro employers and the self-employed the auto-enrolment processes and procedures can radically be simplified to ensure the likelihood of greater participation in pension coverage.

Recommendation 2: It may be that earnings growth in the period from now to 2019 will be such that it will in part address the problem of lower earnings in smaller firms. As things stand we recommend a review of the auto-enrolment earnings trigger in the 2017 Government review (or earlier) given the fact that the current level excludes so many employees. It increasingly discriminates against the high percentage of part-time and notably female part-time employees working in the sector.

Recommendation 3: When and if the Government is considering incentives to encourage enterprise by way of lower taxation and national insurance it should consider whether a share in tax reductions might be earmarked to increasing both or either employer and employee pension contributions. Further increases in the Employment Allowance are a particularly good way of helping smaller firms, part of which could be earmarked for meeting higher pension contributions.

Recommendation 4: The Government, as part of its 2017 review, should consider a means whereby employers staging in 2017/18 are able to phase in their minimum auto-enrolment contributions over perhaps a 3-year period. New businesses should also be considered for such a phasing-in period.

Recommendation 5: As part of its 2017 review, the Government needs to set out a pathway from 2019 as to how increases in minimum auto-enrolment contributions are to be planned over probably a decade ahead. That review should seek to identify a consensus on reforms across the political parties so employers and employees are convinced of the plan's durability. It should identify what support the Government is prepared to commit to adjusting tax and national insurance contributions over the period to support employers and employees alongside what other initiatives, including support for auto-escalation and advisory/educational services, are to be promoted. The ability for both employers and employees to reduce contributions when difficulties arise needs also to be considered so the inflexibilities introduced by legislation and regulation into the defined benefit regime are not repeated in the auto-enrolment regime.

Recommendation 6: Whilst we have some sympathy with the view that the launch of the Lifetime ISA ought to have been delayed pending the outcome of the 2017 auto-enrolment review to consider its impact on auto-enrolment, matters have moved on. However, we do believe that how LISA sits alongside auto-enrolment needs to be considered by the review.

Recommendation 7: Pension tax relief should be retained as a valuable encouragement for pension saving, but with more help targeted on lower income groups. As part of a much needed and 'real' simplification process, the Lifetime Allowance should be abolished in the Spring or Autumn 2017 Budgets, as this is set at an unrealistically low level and is causing huge administrative and financial challenges to employers and affected employees.

Recommendation 8: Future changes to the State Pension Age should retain a Universal State Pension, but with measures to allow people greater flexibility over when they can take their State pension below State Pension Age.

Recommendation 9: The Government should amend legislation so the trustees of private sector defined benefit pension schemes can move to CPI indexation of pension benefits by way of a statutory override to scheme rules, as applies to public sector schemes. Reforms should also allow employers to convert historical benefit scales to a single simplified benefit structure on the basis of fair value.

Recommendation 10: Although not directly a finding of the survey, the overall results we believe support the establishment of a standing independent pension commission, which would periodically advise Government on promoting the active extension and betterment of private retirement income provision and making recommendations on the future of State and public sector retirement provision.

Published by the Association of Consulting Actuaries Limited: 1 February 2017