The Pensions Regulator

Making workplace pensions work

Increasing participation – automatic enrolment challenges and future plans in the UK

EIOPA 2023 DC Pensions Roundtable

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Why was Automatic Enrolment introduced in the UK?

1. People were living longer

The number of workers for every pensioner

2. Millions of people were under-saving for their retirement

Private sector pension participation

2003	2012
56%	42%

Automatic Enrolment started in 2012

- Every employer must put their **eligible workers** (those who meet certain criteria) into a workplace pension and pay into it.

Who is eligible?

An employer must automatically enrol any worker who is:

- Aged between 22 and State Pension Age
- Works or ordinarily works in the UK
- Has qualifying earnings of more than £10,000 a year (approx.11,400 Euros)

What must they pay?

The **minimum** pension contribution is calculated on qualifying earnings between £6,240 (approx. 7,120 Euros) and £50,270 (approx. 57,400 Euros)[1]

- Total contribution must be at least **8%**
- The employer must pay a contribution of at least **3%**

1. Figures for 2023/24

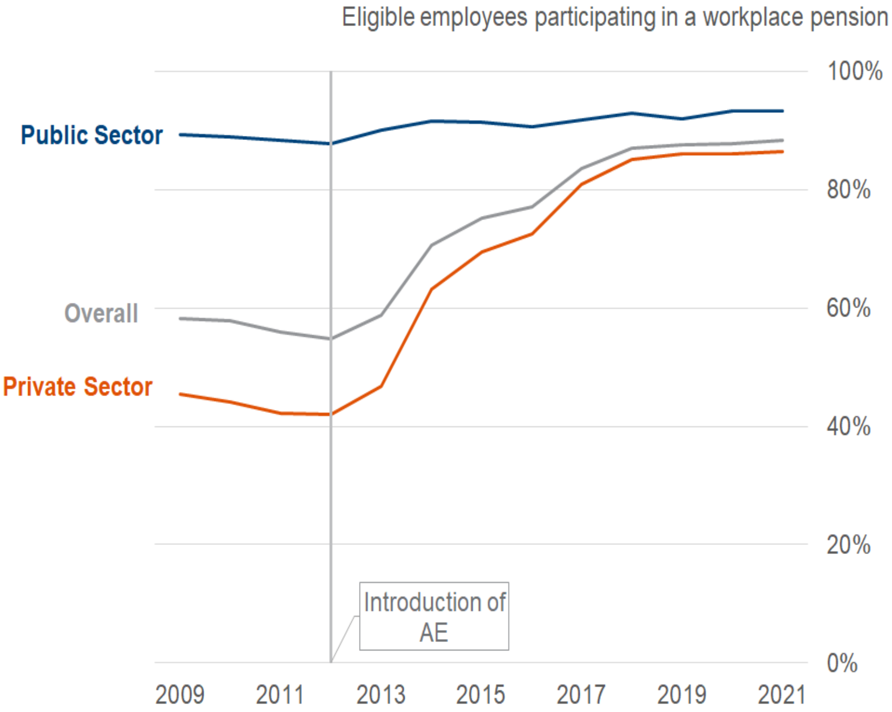
Maintaining saver confidence in pensions

- The Pensions Regulator ('TPR') regulates every employer to make sure they comply with their Automatic Enrolment duties.
- We also regulate certain pension schemes in the UK. The vast majority of savers being automatically enrolled have been enrolled into defined contribution (DC) schemes.
- Those savers rely on the pension system working as best as it can over the lifetime of their saving - every penny counts.

Evolution of DC market since 2012

- DC charge cap
- Master trust authorisation
- Relationship supervision
- Focus on value for money

Automatic Enrolment – ten years on



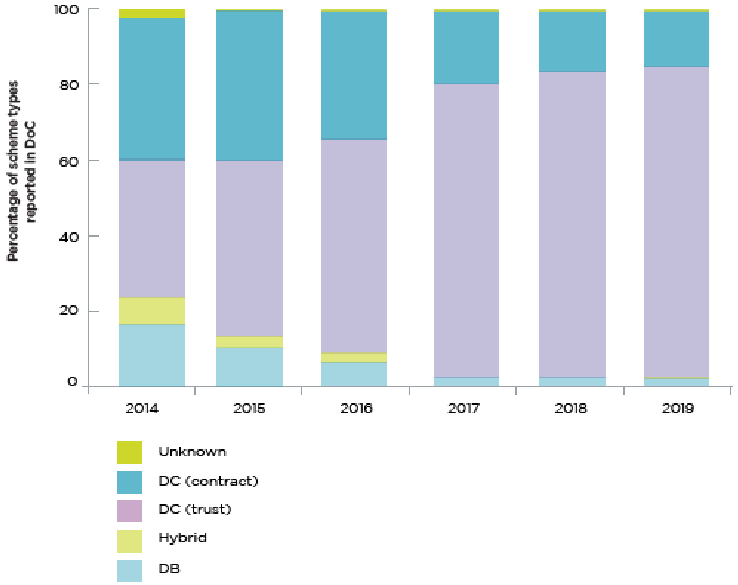
Source: Workplace pension participation and savings trends 2009 to 2021 published by the Department for Work and Pensions

- Overall trends in participation have increased since 2012.
- 88% of eligible workers (20 million) were participating in a workplace pension in 2021.
- Participation rates increased for eligible workers in all industry and occupation cross-sections within the private sector.

Automatic enrolment has changed the pension saver landscape

There are now 15-times as many savers accumulating within DC schemes than accumulating in private Defined Benefit (DB) pension schemes.

Figure 13: Proportion of scheme types reported in declarations of compliance 2014-2019



The above chart shows the proportion of scheme types reported in declarations of compliance since 2014. It shows the prevalence of defined contribution schemes as we move through the staging profile, from the larger employers to the small newborn employers.

Source: Automatic Enrolment: commentary and analysis 2019 published by TPR

Challenges and future plans 1: Risk of under-saving

- Automatic enrolment contribution rates are a matter for government – as a regulator we focus on driving value from the system.
- However, research by the Department for Work and Pensions ('DWP') shows 38% of working age people (equivalent to 12.5 million) are at risk of under-saving for retirement when measured against Target Replacement Rate[1].

Future focus

1. The Department for Work and Pensions ('DWP') intend to lower the age for automatic enrolment from 22 to 18. In 2017, this change was estimated to bring around 900,000 workers into scope for automatic enrolment.[2]
2. The DWP also intend to remove the lower threshold for the minimum contribution calculation so that pension contributions will be calculated from the first penny of contributions. This will increase the minimum contribution for everyone.

These changes are planned to be introduced in the mid 2020s.

1. Analysis of future pension incomes published by the Department for Work and Pensions

2. Automatic enrolment review 2017: published by the Department for Work and Pensions

Challenges and future plans 2: Part-time workers

- People who work multiple part time jobs concurrently may earn enough to trigger Automatic Enrolment on aggregate but not in each job.

- Even if they are automatically enrolled in one job their pension saving is only based on that job. Their other earnings are not included for contributions – so they only save on a small proportion of their earnings.

Female workers are disproportionately affected

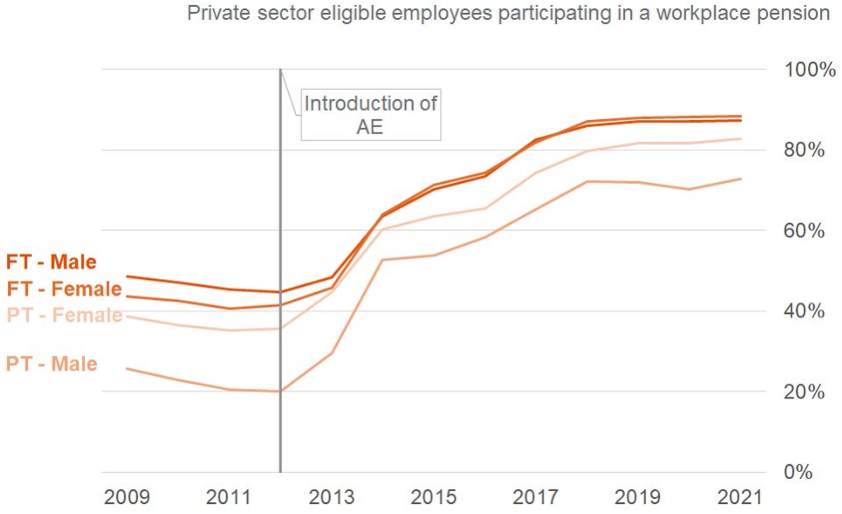
In 2017 65%[1] of part-time workers were female.

In overall employment only 47% are female workers.

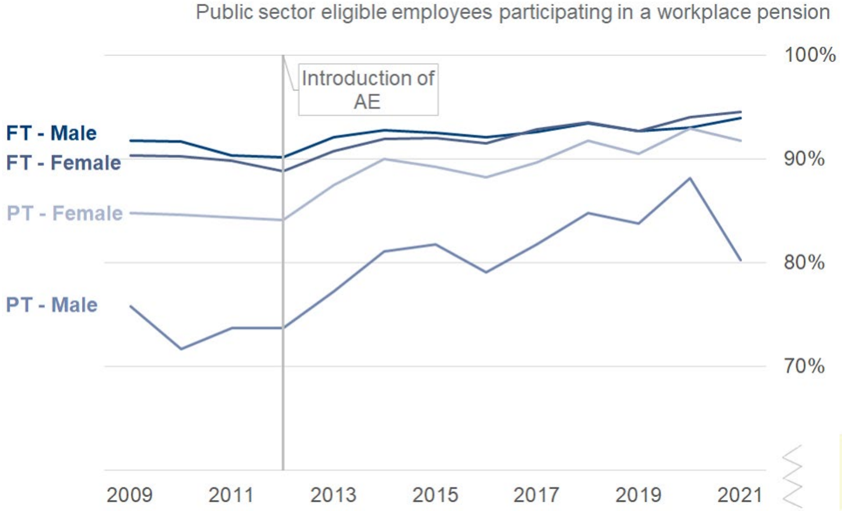
1. Automatic enrolment review 2017: Analytical report published by the Department for Work and Pensions

Challenges and future plans 3: Participation in some groups of savers is not as high

For example, in 2021 there was only a small gap in participation rates by gender among full-time eligible workers but the gap is bigger for part-time eligible workers (in both the private and public sector).



Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2021

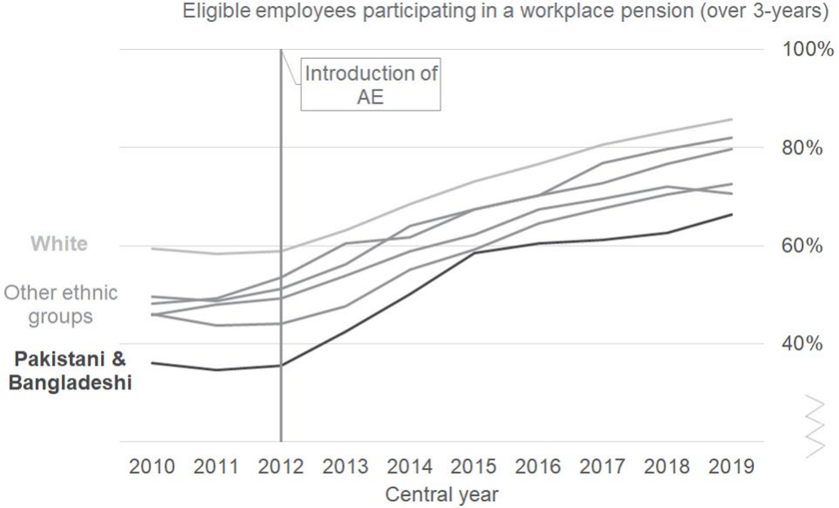


Source: DWP estimates derived from the ONS ASHE, GB, 2009 to 2021

Workplace pension participation and savings trends 2009 to 2021 published by the Department for Work and Pensions

Challenges and future plans 3: Participation in some groups of savers is not as high (continued)

And whilst participation has increased across all ethnic groups, there is gap between White and Pakistani and Bangladeshi groups



Source: Modelled analysis derived from the FRS, UK, 2009/10 to 2020/21

- ## Future plans
- In 2021 TPR published our Equality, Diversity and Inclusion Strategy. We set out that one of our aims is to 'to build a collective understanding of why pensions inequalities occur and, within our regulatory remit, work in partnership with others seeking to reduce them.'
- We want to understand why there are differences in participation. TPR plans an Equality Review to understand how well the market works for different groups of savers to inform regulatory responses.

Workplace pension participation and savings trends 2009 to 2021 published by the Department for Work and Pensions

Challenges and future plans 4: The growth in new ways of working

- We've seen a growth in the UK of new ways of working that do not fit the traditional employment model.
- Often the individual is treated as self employed. For example, the rise of Platform Working (the 'gig economy').
- The nature of such working is task based and as and when needed which also means that average earnings are small.
- We've also seen a growth in the numbers self employed. The self employed are not covered by Automatic Enrolment.

Challenges and future plans 5: Addressing the issue of deferred pension pots

- In Automatic Enrolment the worker is automatically enrolled in the employer's choice of pension scheme. If they move to another employer they are automatically enrolled into that employer's choice of pension scheme and their previous pot becomes deferred.
- It is estimated that on average a person changes employer 11 times during their working life in the UK.
- Small pots can be eroded over time putting at risk good saver outcomes.
- They can also impact profitability of schemes and providers threatening competition and the efficiency and sustainability of the market.

In **2020 there were c.11m deferred DC pension pots** in master trusts.

Modelling suggests that without intervention there will be **27m by 2035.**

Future Plans

- The DWP is looking at the potential options for developing an automated at scale consolidation system for the AE mass market