

PARLIAMENTARY DEBATES

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OFFICIAL REPORT

Fifth Delegated Legislation Committee

DRAFT AUTOMATIC ENROLMENT (EARNINGS
TRIGGER AND QUALIFYING EARNINGS BAND)
ORDER 2017

Wednesday 8 March 2017

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The Committee consisted of the following Members:

Chair: MR DAVID HANSON

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| † Brine, Steve (<i>Winchester</i>) (Con) | † Marris, Rob (<i>Wolverhampton South West</i>) (Lab) |
| † Cunningham, Alex (<i>Stockton North</i>) (Lab) | † Pawsey, Mark (<i>Rugby</i>) (Con) |
| † Docherty-Hughes, Martin (<i>West Dunbartonshire</i>) (SNP) | † Sharma, Mr Virendra (<i>Ealing, Southall</i>) (Lab) |
| † Elphicke, Charlie (<i>Dover</i>) (Con) | Siddiq, Tulip (<i>Hampstead and Kilburn</i>) (Lab) |
| † Harrington, Richard (<i>Parliamentary Under-Secretary of State for Pensions</i>) | † Smith, Jeff (<i>Manchester, Withington</i>) (Lab) |
| † Howlett, Ben (<i>Bath</i>) (Con) | † Soubry, Anna (<i>Broxtowe</i>) (Con) |
| † Jayawardena, Mr Ranil (<i>North East Hampshire</i>) (Con) | † Tomlinson, Justin (<i>North Swindon</i>) (Con) |
| † Jones, Graham (<i>Hyndburn</i>) (Lab) | † Warman, Matt (<i>Boston and Skegness</i>) (Con) |
| † Mann, Scott (<i>North Cornwall</i>) (Con) | |
| | Juliet Levy, Kenneth Fox, <i>Committee Clerks</i> |
| | † attended the Committee |

Fifth Delegated Legislation Committee

Wednesday 8 March 2017

[MR DAVID HANSON *in the Chair*]

Draft Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2017

8.55 am

The Chair: I call the Minister to move the motion.

The Parliamentary Under-Secretary of State for Pensions (Richard Harrington): Formally.

The Chair: The Minister may move the motion and then make a speech accordingly, but if he moves it formally, I will invite the Opposition to speak.

Richard Harrington: I beg to move,

That the Committee has considered the draft Automatic Enrolment (Earnings Trigger and Qualifying Earnings Band) Order 2017.

I am delighted to serve under your chairmanship, Mr Hanson. For the clarity of the record, I did not mean moving the motion formally in the parliamentary sense; I meant doing so in a formal manner, which means being properly dressed and addressing the Chair properly. I hope that I have dealt with that issue satisfactorily.

The order was laid before the House on 2 February 2017. It reflects the conclusions of this year's annual review of the automatic enrolment earnings thresholds required under the Pensions Act 2008. The review considered both the automatic enrolment earnings trigger, which determines the point when someone becomes eligible to be automatically enrolled in one of the qualifying workplace pensions, and the qualifying earnings band, which determines those earnings of which the enrolled employee and their employer must pay a proportion into a workplace pension. The order sets a new lower and upper limit for the qualifying earnings band, and is effective from 6 April 2017. The earnings trigger is not changed, so no further provision is required in the order; it remains at the level set in the automatic enrolment threshold review order for 2014-15.

The automatic enrolment programme has received support from right hon. and hon. Members on both sides of the House. It was implemented under the previous Labour Government and came about as a result of the Pensions Commission, which was a successful and, I think it is fair to say, non-political body. The programme is working. More than 7 million people have already been enrolled and more than 400,000 employers have carried out their duty to provide a workplace pension for their employees. We are now in the final year of roll-out, which I think is the most challenging phase, because the majority of the employers joining are small and micro-employers. Against that backdrop, it is more important than ever to maintain simplicity and consistency for employers. That

is the reason for this year's order, which will provide those things through to the end of roll-out in February 2018.

I am pleased to say that we are at an exciting juncture in the development of automatic enrolment, as my Department is embarking this year on a review of the policy and its operation. It is the right time to reflect on the successes we have achieved so far, and also to look to the future. We are taking stock of the current position and considering how to build on what has been done, so that AE continues its success into the future. I think we all look forward to the result of the 2017 review, but given that it has just begun, it is important that this year's threshold decision does not pre-empt the outcome. Nevertheless, we must obviously continue the principle of increasing opportunity for people to make meaningful savings in a workplace pension, while balancing costs for employers.

I shall describe the impact of the order, and will first consider the qualifying earnings band. Past reviews have generally linked it to the national insurance lower and upper earnings limits, and I think that is common sense and has been uncontroversial. As signalled in my written statement of 12 December 2016, the order will, as its predecessors did, align both the lower and upper limits of the qualifying earnings band with the national insurance lower and upper earnings limits, so that the trigger is the same: £5,876 for the lower limit and £45,000 for the peak.

Maintaining the alignment with national insurance thresholds at the points where contributions start for low earners and are capped for higher earners—remembering that employers are the conduit to the pension—fits exactly to existing payroll systems, without further changes. The decision ensures simplicity and minimises the administrative burden of compliance for employers in 2017-18, while maintaining consistency for hundreds of thousands of small and micro-employers who are implementing AE over the coming year. It is done in the way they expect it to be done, and there is consistency.

The order does not change the earnings trigger, which remains at £10,000, as set in the 2014-15 order. The maintenance of that trigger and anticipated wage growth mean that we expect about 70,000 additional individuals to now meet the earnings criteria and be brought into the automatic enrolment population. Individuals earning below the £10,000 trigger, but above the lower earnings threshold, can still have the option to opt-in to a workplace pension and benefit from their employer's contributions, should they wish. The decision to maintain the earnings trigger at £10,000 will increase the number of low earners who meet the earnings criteria and who are therefore automatically enrolled into a workplace pension.

Rob Marris (Wolverhampton South West) (Lab): Paragraph 7.4 of the explanatory notes says:

“The Secretary of State has re-considered all the review factors against the latest analytical evidence”.

Paragraph 18 of the impact assessment also says that

“the Secretary of State has re-considered all the review factors against the latest analytical evidence”.

To my mind, the impact assessment does not include that analytical evidence. Will the Minister tell us what that analytical evidence is and where it be found?

Richard Harrington: If the hon. Gentleman will have a little patience, I intend to cover that a little later in summing up. Perhaps he will intervene again, and if he is not satisfied, I will write to him with more detail. I hope that is okay; I am not fobbing him off.

The important thing to remember is that the decision to maintain the alignment of the lower and upper earnings qualifying bands with those for national insurance contributions is about maintaining simplicity and consistency for employers, because this is a crucial stage. It does not mean that that will not change in the future—that is what the review is for—but, for the moment, we feel that this is an interim arrangement, at the end of the roll-out, rather than at the beginning of the next phase, which I hope will happen, depending on the outcomes of the review.

In the end, because of wages going up, total pension saving—that is what everyone is interested in—is expected to increase by £71 million. The order therefore ensures that automatic enrolment will continue to provide greater access and opportunity for individuals to save in a workplace pension and build up meaningful pension savings. I commend the order to the Committee.

9.4 am

Alex Cunningham (Stockton North) (Lab): It is a pleasure to serve under your chairmanship, Mr Hanson—for the second time in nine days, I believe. I begin by wishing everybody and all the women in the room a happy International Women's Day. Let us hope that when the Chancellor rises to his feet this afternoon, he delivers a Budget that delivers a little more equality in our society for the women.

I am proud that it was a previous Labour Government who introduced auto-enrolment for pensions. Although we feel that the current Government are building on that work, we certainly feel that much more needs to be done now to bring other groups into the world of auto-enrolment. That said, we very much welcome the Government's freeze on the £10,000 earnings trigger, which will bring some new people into the system.

Rob Marris: On my hon. Friend's opening theme, he will no doubt be pleased to see in paragraph 25 of the impact assessment that an estimated 75% of the newly included group are women.

Alex Cunningham: I am grateful for that intervention, even though it takes away the question I was about to ask the Minister, who has already confirmed that 70,000 extra people will be auto-enrolled. I was going to pose the question: what is the breakdown between men and women? My hon. Friend is ahead of me and the Minister.

I would also like to know the Minister's intentions for future years. Can we look forward to a long-term freeze, thus tipping even more people into the system, or is this simply a one-off proposal? The freeze, of course, does not recognise our argument that more low earners should be enfranchised into pension savings through the auto-enrolment scheme.

The original policy, developed by the last Labour Government, was to align the trigger to the lower earnings limit of national insurance. We maintain that the Government should lower the trigger to that level to

widen the number of low earners who are saving. However, this statutory instrument is a small step in the right direction and we will not stand in the way of its implementation.

During the Committee stage of the Pension Schemes Bill, the Government rejected our amendment requiring them to consider how excluded groups could be brought into auto-enrolment, including the self-employed, lower earners and those working in multiple jobs. We know that the review of auto-enrolment is ongoing, but the Government need to be clear about their intentions on how to broaden access. One group that could have been covered by this SI are people working in multiple jobs, earning a combined income above the threshold, but who do not benefit from having a workplace pension. How is the Minister planning to address that issue? Assuming that he is, can he also confirm that he has the necessary powers to create regulations without having to resort to primary legislation? Lowering the trigger even further would also help to enfranchise some of those working in multiple jobs, as well as those with single roles.

We have also raised concerns about those who are self-employed. We supposedly encourage and support entrepreneurs in the UK, but their lack of access to building up a workplace pension is detrimental to innovation and to their future retirement. Will the Minister say how he plans to ensure that all workers have access to workplace pensions, even if they are self-employed? There are a number of other areas where we think auto-enrolment could go further. I know that the Minister will be looking forward to the debate around those issues, which we will continue to raise over the coming months.

It has been argued that lower earners are already earning such a small amount that auto-enrolling them would be to their detriment. I disagree with that analysis. No matter how little someone earns, they need to be secure and settled in retirement. A workplace pension goes some way to securing that, even for the lowest earners. If there is a problem with lower earners not having enough money to put into workplace pensions, perhaps the Government should look at how to ensure that people have adequate wages to be able to live, provide for their dependants and save for their retirement.

It is particularly important that we ensure that women are better protected in future retirement through auto-enrolment and their workplace pension, as I fear that this Government have severely let women down, given that they are the hardest hit by their austerity measures and cuts—but as we all know, the Chancellor is going to put that right today. The Minister would be surprised if I did not include among those let down the thousands of '50s-born women affected by the acceleration of the state pension age. I know that many of them will be outside today protesting about that on various parts of the estate.

The Minister is fond of saying that there is probably more that unites us than divides us on pensions, but I believe that the recent Bill might contradict that somewhat. The Government are taking the smallest of baby steps to increase participation in auto-enrolment, but they are nevertheless welcome. We look forward to them taking big, adult steps in future, so that we can all ensure that when it comes to pension provision, nobody—

Charlie Elphicke (Dover) (Con): I take issue with the tenor of the hon. Gentleman's speech. Auto-enrolment and the need for reforms of pensions would not have been necessary if a previous Labour Government had not entirely and systematically destroyed the brilliant pension system that we used to have.

Alex Cunningham: I do not accept the second part of the hon. Gentleman's intervention, and as for taking issue with the general tone of my speech, I thought I was being quite conciliatory and kind to the Government on this occasion, and the Minister seems to agree, even if the hon. Gentleman does not.

The Chair: Order. I have been very conciliatory, given that the hon. Gentleman has gone very wide of the order. I would be grateful if he and all hon. Members focused on the order.

Alex Cunningham: I will certainly do that in the last sentence of my speech, Mr Hanson. As I said, we look forward to the Minister taking big, adult steps in future, when we can ensure that, when it comes to pension provision, nobody is left behind, no matter whether they are a low earner, self-employed or a carer, or have multiple jobs.

9.10 am

Rob Marris: It is a pleasure to appear before you, Mr Hanson. I have a small, though concerning point that I would like the Minister to clarify. There is support across the House for auto-enrolment and there have been historical difficulties with pensions. However, paragraph 25 of the impact assessment says:

"Freezing the value of the automatic enrolment trigger at £10,000...brings an additional 70,000 individuals into the target population."

We know from the impact assessment that three quarters of those are women. Paragraph 25 continues:

"This will result in an associated increase in total pension saving of £4.3 million in 2017/18."

According to my calculations, that means on average, for each of those 70,000 additional people, £61 of pension savings in one financial year. That does sound awfully low and a bit worrying. Will the Minister look at that? I know that there are other measures and this is part of a whole, but an additional £61 of pension saving, as an average for each of those additional 70,000 people brought in by freezing the limit, does not sound very progressive or helpful to those people. Off the top of my head, they would have to live about 50,000 years at that rate to get some pension.

9.11 am

Richard Harrington: I would like to respond in full to the hon. Member for Stockton North. I accept that some of the matters that he and I discuss regularly in the main Chamber are really meant for outside this room. I will confine my comments on his speech to the fact that all the points he has made about multiple jobs and getting self-employed workers involved in auto-enrolment are very much on our radar for the review. I look forward to sharing with him publicly and in our conversations what we have in mind.

The Government are committed to expanding the number of people in the auto-enrolment system. Having said that, I think the right decision was taken when it started to keep it as simple as possible because, in a British way, it was quite a revolution. It was a complete change. At the start it was a compulsory workplace pension, and a lot has been achieved by the National Employment Savings Trust, other pension providers and the Government, with strong political support from all concerned. That does not mean that this is the end of the story. If I may attempt to be a little Churchillian, I would say that it is the end of the beginning, not the beginning of the end—or vice versa; I am never quite sure which order to put it in, but that is what it is. With that in mind, I will confine my comments on the hon. Gentleman's speech, given your guidance on the scope of the order, Mr Hanson—that also gives me an excuse not to mention the Women Against State Pension Inequality demonstration today.

In response to the hon. Member for Wolverhampton South West, I do have the supporting analysis for the review, in "Review of the automatic enrolment earnings trigger and qualifying earnings band for 2017/18: supporting analysis". Rather than take the time of the Committee, I will hand it to him, if that is acceptable. It is a comprehensive analysis, and if the hon. Gentleman wishes to take it up further with me, he is welcome to do so.

Rob Marris: I am grateful for the Minister's generous offer, which I accept. Perhaps he could give the Committee the edited highlights of that evidence.

Richard Harrington: The edited highlights are that there was a full analysis that supports the earnings trigger.

The order increases the qualifying earnings limit in line with national insurance to a £5,876 minimum and an upper earnings limit of £45,000. It maintains the status quo for the system of organising the limits. The earnings trigger, at £10,000, remains at its existing level. I know that I have said this several times, but I would ask hon. Members to be aware that that is because we are doing a review. The Government's intention is to do the opposite of trying to reduce the number of people who are brought within auto-enrolment.

As for the figure that the hon. Member for Wolverhampton South West mentioned—this marginal amount—there is a calculator that worked out the amount of money, and I intend to write to him on that basis. He will remember that the minimum to start is 1% for the employer and 1% for the employee. If someone had been brought in at £10,000, remembering that £5,000-and-whatever is the minimum, then I can see a number in my head—obviously quite a crude number, because I have not worked out exactly where that could come from—but this is the very beginning. If someone has a small part-time job in their early twenties and has not gone into full-time employment, then I can see that, but of course they are not going to work for 50,000 years. The whole purpose of auto-enrolment is to get people thinking about their savings, to get employers involved, to show the Government's part with tax relief, and to ensure that, with their state pension and workplace pension, they have enough money for a comfortable retirement.

I believe that I have covered most of the points raised about the order. I thank the Opposition and other hon. Members for their contributions. I do not want to pre-empt the 2017 review. Enough people are involved from the pensions world, the consumer world, the trade union movement and business. A very wide group of people are taking part, not just a few civil servants at the Department for Work and Pensions. I hope that I

have set out for the Committee the need for the order and responded to the matters raised, albeit briefly, for reasons I have explained.

Question put and agreed to.

9.17 am

Committee rose.

