HYMANS ROBERTSON

Letter to Work and Pensions Select Committee

Thank you for the opportunity to discuss "saving for later life" with the Work and Pensions Committee on 27 April 2022. You asked that we follow-up in writing with any additional points we would like to make.

The discussion across both panels on 27 April demonstrated the common view across the industry that the UK pension framework is broadly fit-for-purpose, although there are some significant developments to the framework that are needed to address specific shortcomings in the retirement outcomes for individuals. One of the primary shortcomings with the framework relates to retirement outcomes for women compared to those enjoyed by men.

The Gender Pension Gap report from 7 April 2022 identifies the primary drivers for this gap being so much larger than the Gender Pay Gap. These being significant career breaks and the higher prevalence of women working part time. These career attributes lead to significant periods where no private pension is accrued because:

- Career breaks are unpaid, meaning that no employer exists to make auto-enrolment contributions. The report from the PPI in July 2019 identifies "time away from work" as the biggest contributor to the Gender Pensions Gap;

- The £10,000 auto-enrolment threshold means that working part-time (e.g. post caring or holding more than one part-time job) results in no pension contributions being made (unless the individual "opts-in"); and

- Not calculating pension contributions from the first £1 of income has a disproportionate impact on the savings of lower paid individuals.

Addressing these three shortcomings will help to significantly close the Gender Pensions Gap. As discussed at the committee hearings, our view on how these shortcomings are addressed is as follows:

- **Career breaks**: Similar to the way that Government provides State Pension credits for certain individuals, the Government should provide auto-enrolment contribution credits to these individuals. These contributions could be made annually based on a notional earnings level. For example, if notional earnings were set at £16,240, the Government would pay an AE contribution of around £800 a year (i.e. 8% x (£16,240 - £6,240)).

  Although this would be a significant cost to the Government, time away from work is the biggest contributor the size of Gender Pension Gap and needs to be addressed.

  This "AE credit" approach is analogous to State Pension credits and reflects the fact that individuals in these situations (e.g. caring for children and/or elderly relatives) are adding value to society.

- **Pensioning from the first £1**: Removing the offset to qualifying earnings (i.e. £6,240). It is difficult to understand the rationale for having an offset other than to mitigate the cost of contributions to individuals and employers, and the cost of tax-relief to the Government. Employees can ultimately opt-out if affordability is an issue.

- **Auto-enrolment earnings threshold**: This should be substantially reduced to bring significantly more people into automatic enrolment. The current opt-in option for individuals earning below this threshold is too weak a mechanism to support retirement saving.

  The Gender Pension Gap report from 7 April 2022, suggests that reducing the threshold to £5,000 (from the current £10,000) would result in over 800,000 individuals being subject to auto-enrolment. Of these, over 600,000 would be women.

  The original rationale for introducing an earnings threshold was to ensure that individuals benefited from any pension savings and that these savings didn't result in a reduction in other means tested benefits. The introduction of the new State pension in 2015 has substantially reduced this risk.

We would be happy to provide further input on this issue.

Yours sincerely

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