

Dept for Work and Pensions
Caxton House
Tothill Street
London
SW1 9DA

13 August 2010

Dear Sirs,

Workplace Pension Reforms review - Making automatic enrolment work

On behalf of ILAG, we have pleasure in submitting the following comments to assist with the above Review

ILAG is a trade body representing members from the Life Assurance and Wealth Management industries. ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

Our comments on the proposed scope are noted below. We would be happy to discuss these in more detail if required.

The earnings threshold, above which automatic enrolment applies

If a major aim is to tackle pensioner poverty as quickly as possible, including amongst women pensioners, then the introduction of a higher *de minimis* level for contributions before automatic enrolment applies seems counter intuitive.

Having said that, means testing should be simplified prior to the introduction of NEST otherwise the lowest paid could have to pay for no gain. So, if means testing is here to stay, there could be an argument for a *de minimis* limit – but that will not do anything to lift those people who are above the pensioner poverty level. It might, however, prevent a large number of seasonal workers on low salaries being auto-enrolled into the scheme – many of whom may be from overseas countries and not permanent UK residents. This could be addressed either by a minimum qualifying period, as mentioned below, or by a minimum earnings level.

The age group to which automatic enrolment should apply

This is might be difficult to apply. It should cover anyone from 16 to SPA. However it is patently not sensible to auto-enrol individuals only a few months away from retirement who

would subsequently receive miniscule pension pot, likely to be commuted under triviality. This will be complicated further when there is no default retirement age.

It is important that there should be safeguards for those close to pension age, with no other pension provision, to avoid the means testing trap.

The size of firm to which automatic enrolment should apply

Given that many currently un-pensioned employees are working for smaller employers, there does not really seem to be an argument for excluding employers on grounds of size.

There might be grounds to suggest that new start-ups could be excluded for a period to allow them to become established but care would have to be taken to avoid manipulation (eg close one business and start another almost identical one).

Whether employees should be automatically enrolled on the day they start work or some later date.

A short qualifying period, of maybe 3 or 6 months, would avoid the preponderance of very small pots in high turnover companies, seasonal and overseas workers and probation periods.

This would have the benefit of allowing time for employees to be given full details of the scheme before any contributions are deducted from their earnings. It will also enable them to make an informed decision about whether to stay in or opt out; they could opt out in advance if they wish.

A qualifying period would also lessen the attractiveness of occupational schemes and may stop the potential flow away from contract based schemes.

The availability and capacity of pension providers other than NEST to serve the potential automatically enrolled population.

A high proportion of the NEST target market works for SMEs or micro-employers, and one of the most costly aspects for the private sector is contribution collection. Economies of scale mean that larger schemes can be handled cost effectively but providers would not find it attractive to offer group plans to small employers unless there was flexibility to charge an appropriate rate to cover costs.

Individual plans could be used and, in theory, could transfer with the employee from job to job. However, the administrative costs make this unattractive unless there was a centralised contribution collection system, run or sponsored by Government that could forward contributions through to the provider.

Yours faithfully,

Mark Searle
Administration Team