The Pensions Commission shouldn’t delay action to support savers

The renewed Pensions Commission is a welcome step towards dealing with the looming pension crisis. But we need to act now to help the current generation of undersavers.

The government finally launched phase 2 of its pensions market review on Monday 21 July. Phase 1 looked at ways to increase investment and saver returns and forms the basis for much of the Pension Schemes Bill.

The second phase’s remit was to deal with pensions adequacy – that is, to find ways to improve outcomes for millions of people who aren’t saving enough for retirement.

As the basis for phase 2, the government has revived the Pensions Commission, which was set up when Labour was last in power and published its final report in 2005. Led by Lord Adair Turner, the original commission recommended automatically enrolling employees into workplace pensions with minimum contributions. Baroness Jeannie Drake, who sat on the Turner Commission, will lead the revamped commission.

Auto-enrolment (AE) has succeeded in its basic aim by drawing more than 10 million people into workplace pensions and getting them into the savings habit. But it hasn’t done enough. According to the government’s own figures, more than 12 million people aren’t saving enough for the retirement they expect, and fewer than one in five self-employed people are saving into a pension.

The commission’s proposals won’t take effect for many years

It’s therefore right that the government has asked the commission to find ways to improve retirement outcomes, especially for those on the lowest incomes and at the greatest risk of poverty in old age.?

However,?the commission won’t report until 2027, and its remit is to produce “proposals for change beyond the current parliament”. This suggests little will happen in the next five years or more.

We recognise?employers are already dealing with higher national insurance contributions. Indeed, Chancellor Rachel Reeves reportedly delayed phase 2 in December to give employers time to digest her national insurance increase. It’s also worth noting that in a consumer-driven economy, getting people to save more is arguably at odds with the government’s short-term priority of increasing growth.??

Yet people need help now to build savings for retirement. The commission’s terms of reference say:

“Put bluntly, private pension income for individuals retiring in 2050 could be 8% lower than those retiring in 2025 – undermining a central measure of societal progress.”

If a revived Pensions Commission is what it takes to address the problem properly, then that is a good thing. But it’s disappointing that the timeframe is so long.

As far back as 2017, the Department for Work and Pensions spotted changes to AE that could get people saving more and earlier.

These were:

- Reduce the age for AE to 18 from 22, giving a saver four more years of contributions
- Scrap the lower band of qualifying earnings so that contributions apply to every pound of salary

Successive governments have left these ideas on the shelf. However, there is cross-party support for them and the government could implement them sooner rather than waiting for the commission.

Let’s change how people think about pensions

What other measures should the commission consider?

The pensions industry has also called for the raising of minimum AE contributions gradually from 8% to 12% – in line with Australia (the government’s preferred reference country for pensions).?This is an obvious reform that the government is wary of in the current climate, but something like it will be on the commission’s agenda.

It’s not all about AE. We need to get people actively involved with their pensions and change the general perception of retirement saving.?AE relies on inertia, but inertia will only get us so far.

As a society, we associate pensions with old age, which to most people below the age of 50 feels like something in the far distance. Why save more into your pension in your 30s when you are bombarded with options for spending now on holidays, nights out and new gadgets (to name a few temptations)?

But pensions involve free money – a pretty exciting idea. Not only does your employer match (or more than match) your contributions, but the government gives you tax relief. And compounding enhances that free money further. That should be a powerful message.

We don’t just need to change the message; we need to change how we communicate the message.

The pensions industry has lagged behind other sectors when it comes to digitisation and?engagement of members. With people managing their lives online, the industry needs to utilise?technology?to increase? members’ awareness of their potential standard of living in retirement and how they can improve it. That’s why we launched our first members’ app – My Pension @ Aptia – this year.??

The commission’s terms of reference include finding ways to address inequalities in retirement outcomes, with lower earners, women, carers, and the self-employed at greater risk of low retirement living standards.?This is overdue and welcome.

Our data shows that, on average, women who have paid into a defined benefit pension plan receive only half the amount paid to a man. The picture was the same for defined contribution savers. Self-employed people, a growing group in the age of the gig economy, are saving far less than in the late 1990s. And the pension pots of people not classed as “white British” are on average less than half the size of equivalent white British people.

CDCs are a new way to improve retirement outcomes

There are ways to boost people’s incomes in retirement without increasing contributions. Collective defined contribution schemes (CDCs) offer the prospect of better outcomes for scheme members by pooling investments and risk, and the commission will no doubt consider their potential impact.?

Pensions Minister Torsten Bell thinks CDCs will take off, and we would urge the government to press ahead with CDCs while the commission is deliberating.

Employers can take action too. Here are two things employers could do now to encourage pension saving:

- Introduce salary sacrifice for pension contributions, where they haven't already done so. This could help with the increase in national insurance and, if the employer passes on national insurance savings, it will boost pension savings?
- Put in place a "save more tomorrow" arrangement, where workers agree today to give up some of their future salary increases for a bigger employer pension contribution (with the potential benefit of reduced wage inflation)?

Don't undermine pension saving in the budget

We also want to reiterate our warnings to the government about the potential effects of changes to pension taxation – and how potential measures are trailed as we approach the budget, expected in October or November.

Even as the government announced the Pensions Commission, talk was building about potential changes to pension tax relief and tax-free lump sums. Deputy Prime Minister Angela Rayner has also suggested reinstating the lifetime allowance, and HMRC's review of pension salary sacrifice has started scaremongering about its possible abolition.

We would?again?urge the government to think carefully about any changes that might undermine faith in pension saving – and to crack down on speculation that could prompt people to make rash decisions about their pension pots.

The revived Pension Commission indicates that the government is taking pension adequacy seriously and wants to address all aspects of the pension crisis. But it will take many years for its proposals to take effect – and millions of pension savers don't have that much time.

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Dear Rachel Reeves: tread carefully on pensions before your budget
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