

### Summary

- Calls for a pension adequacy review have intensified as a significant portion of employees continue to contribute at the minimum auto-enrolment (AE) level, which is deemed insufficient for a secure retirement.
- Experts highlight the ongoing lack of consensus on how much to increase AE contributions, with concerns about the economic climate complicating the implementation of necessary changes.
- There is strong support for phased and pre-announced increases in the form of a roadmap for AE contributions, especially following the government giving the Pensions Commission the task of examining pension adequacy.



# Getting the timing right

**Developing a roadmap to increase auto-enrolment contributions presents a substantial challenge, particularly when it comes to determining the 'right time' to act. Paige Perrin explores how this issue can be tackled, and the role the Pensions Commission may play in addressing this**

Since the introduction of auto-enrolment (AE) in 2012, contribution levels have remained largely unchanged, prompting growing calls for a review. Following the Labour government's election in 2024, its commitment to examine pension adequacy and its revival of the Pensions Commission seem to have at last pushed the issue firmly up the agenda.

As many in the industry argue, this focus is long overdue. Demonstrating this, data from the Department for Work and Pensions (DWP) shows that 30 per cent of private sector DC employees are still saving at the AE minimum level, which is widely considered insufficient for an adequate retirement.

While there is broad agreement that contributions need to rise, the challenge lies in how and when to act. Against a backdrop of cost-of-living pressures, global instability and wider economic uncertainty, identifying the 'right time' is far from straightforward.

"One of the biggest challenges for policymakers is the current fiscal environment, which will make them

understandably cautious about anything that could be perceived as adding costs for employers or reducing take-home pay for workers," Quilter retirement specialist, Adam Cole, says.

### Building a clear consensus

Despite the recognition of the necessity to improve retirement adequacy quickly, Pensions Policy Institute director, Chris Curry, highlights that there is still difficulty in creating a consensus about the right level for these increases.

"There seems to be a kind of coalescence [amongst the industry] around 12 per cent of earnings, but there's work ... which shows that that's not enough for some people and too much for others... finding a single answer is always really difficult," Curry says.

Meanwhile, LCP partner, Steve Webb, argues that timing is also a major issue, saying: "There's never really a 'right time' to increase contributions".

"The DWP ran a 2017 AE review which proposed some quite modest incremental changes (applying the 8 per cent from the first pound and bringing

in the 18-21-year-olds), but there was no political priority to implementing even these modest changes. No doubt things like dealing with Brexit, the pandemic, and a cost-of-living crisis triggered by a war in Europe didn't help," Webb says.

Cole agrees with Webb, stating that: "Even signalling the start of a roadmap to higher pension contributions risks criticism that the government is imposing further financial pressure at a time when many households and businesses are already stretched".

"The big problem has been that there was never a timetable to go beyond 8 per cent," Webb explains. He adds that while the Turner Commission built consensus around AE, employers were hesitant to commit beyond 3 per cent, making a "half a loaf" approach necessary to "get it off the ground".

### Possible solutions

The Investing and Saving Alliance head of products and long-term saving, Renny Biggins, reasons that "continued delay only compounds the adequacy problem" and therefore suggests that the increase in contributions "needs to be framed in the right way".

Curry also emphasises how crucial timing is for increasing AE contributions, suggesting that increasing contributions in April, when net pay, income tax, and national insurance changes occur, could make the rises "easier to absorb".

Experts agree that a long-term view has previously helped both employers and employees manage a change of this magnitude.

“As with many policy challenges, the key is to seek to take a long-term view whilst also grappling with the implementation impacts and real-life consequences in the short as well as the longer term,” Mercer UK wealth strategy leader, Tess Page, says.

Meanwhile, Curry points to the 2012 AE rollout and Australia’s gradual increases as examples of times where this approach worked, noting that phased, pre-announced implementation was “really helpful” and makes delays easier to manage.

“Having these things pre-announced is generally a really good way so that when the time is right, it’s already in place, rather than having to go through all the parliamentary procedures, the legislation, the laying of regulations,” he says.

“There is a real risk that waiting for the ‘right time’ means reform is continually pushed back. Balancing the need to raise contribution levels with what is affordable for employers and individuals will not be easy, but it is of increasing urgency,” Fidelity International head of platform policy, James Carter, explains.

Aviva wealth policy director, Emma Douglas, doesn’t think “we can get to adequacy unless a roadmap for increasing pension contributions happens”.

Despite the plethora of possible ways to increase contributions, the current government has committed to not doing so during this parliament.

### **The role of the Pensions Commission**

Given the government’s stance and the urgency of this issue, it is clear that a longer-term solution needs to be established to push this change through.

“As the Pensions Commission considers the future of the system, we have a crucial opportunity to ensure pension saving remains fit for future generations, alongside giving employers certainty about any changes that may be ahead,” Standard Life Centre for the

Future of Retirement director, Catherine Foot, says.

Although it is not confirmed that the commission will examine contribution levels, the commission has a unique opportunity and skill set to explore this.

Having sufficient time is an advantage for the commission, according to Curry.

“The commission has been tasked with looking forward over a very long period of time. It’s probably better to do something that will stick and will have the right long-term impact rather than try to rush something in,” he says.

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This longer-term perspective also allows the commission to review past suggestions on how to increase contributions.

For example, Page says: “We believe the AE Extension Act should be implemented in conjunction with increasing contributions.”

Page is not the only one to think that wider issues that are part of the adequacy argument should be included in the commission’s work. Webb also recommends that the commission should look at particular under-served groups – notably the self-employed – and “finally grasp that nettle as well”.

Webb also hopes and expects that the commission “will set out a destination – where are we trying to get to – and a road map, ideally with illustrative dates”.

Douglas adds: “I believe we will see, maybe not in the commission’s interim report, but in the final report, some kind of roadmap to increase contributions. I don’t think you can get to adequacy unless you are prepared to bite that bullet.”

Despite many pension professionals believing the commission is the ideal candidate to take on the task of increasing AE contribution levels, they also stress that collaboration is essential for success.

Legal & General (L&G) DC & workplace savings CEO, Paula Llewellyn, argues for “a clear, irrefutable case for reform” and that L&G sees part of the commission’s role as building “consensus and agreement from employers, politicians (across all parties), industry and consumer groups that this needs addressing, and that whatever they recommend is the best way to address it”.

“The proposals should then be set within a long-term roadmap with a clear glidepath, giving everyone time to plan and adapt,” Llewellyn continues.

Webb adds that “obviously, the government will have to take the final decision [*on contribution levels*], but the commission can try to build a broad consensus which will hopefully survive any change of government”.

“An independent, holistic review that looks across state, workplace and private provision is essential if the next phase of AE reform is to deliver lasting impact and truly complete the job and build on the success of the Turner Commission,” Carter argues.

With the commission’s first interim report due this spring, it is an ideal opportunity to establish a long-term roadmap, address underserved groups, and build on the success of the Turner Commission. The new commission faces high expectations, as the industry awaits with bated breath to see if it will recommend a much-needed increase in AE contribution levels.

 **Written by Paige Perrin**