



**Submission by Salvus Master Trust to the Department for Work and Pensions Consultation on auto-enrolment.**

**Contents**

Submission by Salvus Master Trust to the Department for Work and Pensions Consultation on auto-enrolment. .... 1

1 Overview..... 2

2 Theme 1 - Coverage..... 2

3 Theme 2 - Engagement..... 4

4 Theme 3 - Contributions..... 5

5 Wider review ..... 7

## **1 Overview**

- 1.1 The following submission has been prepared by Graham Peacock on behalf of the Salvus Master Trust. Graham Peacock leads the development of Salvus and is a regular commentator on workplace pensions championing the position of employers and employees alike. With payroll professionals playing a critical role in auto-enrolment (AE), Salvus is leading the charge to make AE work for the vast number of mini and micro employers yet to stage.
- 1.2 Salvus Master Trust is a challenger workplace pension provider set up by Steve Goddard initially to administer the DC pots of those members whose employer has entered PPF. This Spinnaker Master Trust has now been fully merged with Salvus to create almost £70m of assets with 3000 employers and some 33,000 auto-enrolment members.
- 1.3 With an entirely independent trustee board and Aegon Investment Management providing the default fund and a range of investment options outside, Salvus is challenging traditional providers and growing strongly. Salvus achieved MAF accreditation in 2016 and is now one of only a handful of providers that is fully digital and 100% online.

### **Theme 1 – Coverage**

- 2.1 *Do the earnings trigger (£10,000 in 2017/18) and age criteria (22 to SPA) continue to bring the right people into automatic enrolment? 1a. Is there a case for bringing individuals not currently eligible for automatic enrolment into scope, and on what grounds?*

No, we don't believe the earnings trigger continues to bring the right people into auto-enrolment. AE is guilty of exclusion and has been from the start. Many workplace pension schemes are open to employees from age 16. SIPPS of course have no minimum age and are often set up for grandchildren. On the basis that the earlier you start saving for retirement the better off you will be, holding off starting until age 22 makes no sense whatsoever.

The £10,000 threshold also makes no sense at all. Employees earning less than the trigger still need pensions. The £10k threshold should be removed. This threshold denies many people who have part time or multiple part time jobs the opportunity to enrol. Many women who have multiple jobs fall into this category. It is therefore no surprise that women are disproportionately excluded from an automatic workplace pension.

It is, however, important to recognise that tax relief will, under the current regime, only be available to taxpayers. The overall tax relief delivery regime needs urgent attention. It would be relatively easy to reduce the AE eligibility although payroll, software and pensions will all need to be redesigned. In addition, the current tax relief model does not target the benefit towards those who need it most.

### **Recommendations:**

Salvus makes the following recommendations:

- Reduce the threshold of age 22 to age 16.
- Remove the £10,000 income threshold.
- Remove discrimination from the tax relief regime and ensure that all members of a workplace pension benefit from a government top-up on a targeted basis.
- Turn tax relief on its head and offer more relief to younger members and less or no relief to higher rate taxpayers.

2.2 *Do the categories of non-eligible jobholders and entitled workers continue to make sense in terms of enabling those who are not eligible to be automatically enrolled to save into a workplace pension?*

These terms are easily misunderstood and make little sense. Often non-eligible employees have been marked in payroll as out of scope as both terms get confused. The term ‘entitled worker’ is ironic as they are in fact entitled to nothing, no employer contribution and in a net pay pension, they are likely not to be entitled to tax relief. If the above ages and wages criteria are changed then the need for these terms is limited or indeed not required and we could simplify AE to have just one category, for instance “eligible job holder”.

Employees with multiple jobs (often women) are excluded from auto-enrolment unless of course they decide to opt in or for those categorised as “entitled”, join. I also don’t understand the logic of the “entitled” worker not automatically benefitting from an employer contribution. Salvus asks all employers if they want to contribute for entitled workers. Surely this could, and should, be resolved compelling employers to make contributions for all employees.

### **Recommendations**

- Remove these categories, reducing the risk of misinterpretation.
- 2.3 *In the light of the continuing evolution of the labour market, is there a case for exempting any group or groups of employers from automatic enrolment duties?*

Whilst I realise my next comment could be open to abuse and our leaving the EU will have an impact – I feel it has never made sense that we are faced with enrolling seasonal workers staying short term in the UK. The majority of these will opt out and the farmers who hire pickers for four to six months really have a lot of work to do to help very few. Again, if AE is more inclusive with low earners and the under 22s being enrolled this will be a much better result than enrolling overseas workers who come and go.

2.4 *How can self-employed people be encouraged and enabled to save more for later life/ for retirement?*

This is not the remit of AE. The self-employed can set up a personal pension. The tax incentives for doing so are clear but as always when running your own business cash flow is key. I don't believe any compulsion can be brought in here.

However, the gig economy workers should be included within AE if they are deemed workers. Clarity is required here following recent rulings around Uber, Deliveroo and Pimlico Plumbers. Of course, I expect that such "employers" will change their contract of engagement to bypass this, but for many workers it is not clear if they are under AE or not. It is important that employers take control of AE and don't leave it to their workers to guess at the definition. If they are on your payroll, as a simple rule of thumb, you should get them in the workplace pension, whether self-employed or not.

## **Theme 2 – Engagement**

- 3.1 *What examples are there of effective communications and engagement tools that have delivered: sustained workplace pension saving over the long term, and increased levels of savings resulting from changing contribution rates?*

There is a communications deficit from the moment the auto-enrolment process begins. Staff are auto-enrolled and informed after the fact. Money is deducted from salaries without consultation and a letter is sent (the statutory communication) that explains nothing. So we start from a negative engagement point of view. There is no magic letter that would not just waste time and resources in the short term attempt at "engaging". I suggest we await the April 2019 increase on contributions and see who is still a member before we gauge both how effective communications have been to date and how we might be able to reach those who remain opted in. The pensions dashboard – of which there should be a working version by 2019 – may help. Providers will have consolidated by then and at that point a soft communication campaign run jointly by the likes of TPR, DWP, TPAS and providers should be designed to boost contribution rates. I would also do away with the current 3+5% contribution model and replace it with a fairer and simpler 4+4% contribution model. One way of doing this would be to simply increase the employer contribution to at least 4%.

- 3.2. *In an individual's automatic enrolment journey, what are the most and least effective touch points when appropriate engagement can help reinforce personal ownership of pension saving? What form should that engagement take, who should deliver it and how?*

Only a tiny minority of those auto-enrolled have taken any ownership of their pension pot. I think to go from the dictatorial AE rules to some magic switch that is called engagement is just pie in the sky. Advisers need to be involved but won't, quite reasonably, unless someone compensates them sufficiently for services rendered. Technology can improve this over time with several software solutions to help members model what they might achieve at retirement. The dashboard will also help when it eventually arrives.

That said, Salvus plans a regular prompt to its membership to consider how life events impact on their quality of retirement. Our member portal is being constantly developed to add much more functionality, but as always, the starting point for this is getting members to log in (and therefore actively engage) in the first place. Our welcome letter is the first touch

point and prompts registration and beneficiary details. We aim to deliver a lifestyle approach to trigger engagement. This needs to learn from the SIPP industry who have prompted members to top up pensions shortly before the tax year end. Workplace should reverse this and prompt top ups at the start of tax year as top ups would normally come via payroll.

3.3 *What are the challenges and barriers to sustained or timely engagement for different cohorts and individuals, and how can they be overcome?*

As stated already, engagement is not something that can simply be switched on. Pension providers need to use technology and CRM principles to communicate with members at key life events. There is no point in talking about sustained engagement before members take ownership of the workplace pension.

3.4 *What are individual attitudes to workplace pension saving and what influences those attitudes?*

The vast majority of auto-enrolled members have had little or no explanations beyond the basic statutory communications. So, not surprisingly, attitudes are not positive. That said, those members who do engage need to be able to do so with ease – and the most effective way of doing this tends to be online. The auto-enrolment project has been a worthwhile one. Compulsion was inevitable and opt-out rates have been low. However, the low initial rates of contribution which have been adopted by the majority of employers masks a potential issue. We will next be able to gauge individual attitudes when the contribution rate increases in April 2018 and again in April 2019.

### **Theme 3 – Contributions**

4.1 *What are the key drivers, opportunities and barriers for individuals and employers that may affect their behaviours in relation to sustaining existing, or managing increasing, contribution rates?*

The gradual introduction and slow-stepped increases of auto-enrolment contributions was a plan to gently introduce compulsion into workplace pensions. This means that in three years we will see minimum contributions increase four-fold. But in fact this is not a gradual process. The principle of matched contributions is one adopted by many employers before AE was introduced. Matching employer contributions with employee contributions is fair. Government contribution (via tax relief) could be introduced to again match what employers and employees are compelled to pay. This would be too expensive for HMT to support unless the overall pension tax relief budget is targeted. 4% employer, 4% employee and 4% HMT would get to the rates already enjoyed by our friends in the southern hemisphere. This could only be paid for by removing tax relief for high rate tax payers.

With the vast majority of employees only meeting 1% of qualifying earnings, this is camouflaging the true picture.

4.2 *Is there scope for a more flexible approach to contribution rates to reflect an individual's life and employment journey?*

Retirement planning principles are simple. Start as early as possible (time), contribute as much as you can afford (asset size) and do both in a low charging environment (charge cap), not forgetting steady long-term investment returns. The rules will dictate that most employees will be forced to contribute 5% of income. Granted, the rules allow for members to request that the employer accepts a lower contribution, but then this is deemed a non-qualifying arrangement. Opting out is often seen as the only option, but opting down must be more widely explained.

- 4.3 *Do you have any evidence or views on the most appropriate/effective balance between employer and individual contribution levels? What are the options for encouraging, 'nudging' and enabling people to save more into their workplace pension?*

This is simple matching. I have long since argued that 1% plus 1%, 2% plus 2% and 4% plus 4% would be fair. That is not what we have. Employers need to lead this, but won't unless there is an incentive. More should be done to promote the tax efficiency from an employer's point of view of making greater pension contributions. Having worked for many large financial institutions, it does seem that AE has dumbed down the level of contribution that is deemed acceptable. I have heard from many employers and employees over that last five years and if it is not seen as fair, employees often give up. Giving up means opting out. We have to get through two pre-planned "nudges" in April 2018 and April 2019. We must wait until we see the impact of these "nudges" before politicians start tinkering again. Again tax relief must be better used to target and encourage the priority cohorts to save more. I keep coming back to the removal of high rate tax relief and some mechanism to target tax relief on the youngest. Generation Y will not benefit from the DB arrangements that helped their parents and grandparents. The current low interest rate environment, high rental prices and high house prices are making it increasingly difficult for this age group to get on the property ladder and amass assets of their own, from a moral point of view, the least we can do is target this priority group.

- 4.4 *To what extent are individuals saving outside of a workplace pension for retirement and how does this impact on their interest and ability to save into a workplace pension?*

I strongly disagree with HMT's view on using the new Lifetime ISA (LISA) as a means for saving for retirement. Those that can afford to save into both workplace pensions and a LISA or an ISA are not the group AE is targeting. These are choice based savings not savings based on compulsion. When auto-enrolment is undermined by more "attractive" options actively promoted by HMT then it is likely we will start to see problems. Auto-enrolment is about compelling employees who will not act of their own accord but might be quite happy for someone (the employer or the state) to "nudge" them into a workplace pension. We must not confuse this with complementary savings products that are freely available to those that want, and can afford, to use them. Saving into a LISA or an ISA is not as efficient as a workplace pension. That said, they are both very effective savings vehicles for those that can afford to.

LISA is however a divisive, ill-considered reaction to an attempt to change pension tax relief. LISA looks and feels like a pension product but if used for one of its primary functions (namely house purchases) then the member is left without a significant pension at retirement.

## 5. Wider Review

### 5.1 *What are the advantages and disadvantages of lowering the level of the default fund charge cap?*

Driving cost down further is not necessary. The vast majority of providers are already below the current 75bps charge cap. NEST, of course, has only been able to do this with a huge loan from DWP that it cannot repay and a 1.8% charge applied to every contribution received. Commission is a thing of the past and active member discounts have been outlawed. Quality workplace pensions are being provided with most delivering a solid performance. There is no need to reduce this further and risk destabilising the entire market and removing the innovation that the workplace pension industry has needed for many years. This part of the market is no longer broken, so we would advise to leave well alone.

### 5.2 *What are the advantages and disadvantages of extending the cover of the charge cap to include some or all transaction costs?*

The basic principle is that all charges should be disclosed. These transaction costs are met by the investment manager who is managing the underlying assets that make up the default fund. Workplace pension providers and their trustees/IGCs cannot always get this level of transparency from the investment house. In principle, investment managers should be compelled to disclose transactional fees including drag in index performance where the fund itself passively tracks an index and the index itself is one designed by the investment manager.