



# Workplace Pension Reforms Review

## IoD response

Department for Work and Pensions  
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Dear Sir,

This memorandum presents the Institute of Directors' (IoD) submission to the Department for Work and Pensions' Workplace Pension Reforms Review. We are pleased to have the opportunity to contribute to this review, and make a number of observations below on auto-enrolment and the National Employment Savings Trust (NEST). We hope you find our comments useful.

### ***About the IoD***

1. The IoD was founded in 1903 and obtained a Royal Charter in 1906. It is an independent, non-party political organisation of approximately 40,000 individual members. Its aim is to serve, support, represent and set standards for directors to enable them to fulfil their leadership responsibilities in creating wealth for the benefit of business and society as a whole. The membership is drawn from right across the business spectrum. 78% of FTSE 100 companies and 59% of FTSE 350 companies have IoD members on their boards, but the majority of members, some 72%, comprise directors of small and medium-sized enterprises (SMEs), ranging from long-established businesses to start-up companies.

### ***Auto-enrolment***

2. The first thing to say here is that we support the auto-enrolment principle. It is quite clear that a major social policy issue is building if no action is taken, the alternative being compulsion. However, we think the auto-enrolment parameters as they stand are complex and impractical in a number of respects and will be extremely onerous on employers. A number of pragmatic suggestions for change have been made in your recent workshops on this issue, which we welcome.
3. We also remain concerned at the interaction between private saving and the means-tested retirement benefit regime, which we think acts as a disincentive to save and may adversely affect the success of auto-enrolment. In particular, we think the following are worthy of further consideration:
  - **Minimum employee numbers** – we think that the smaller employers will typically see the lowest levels of auto-enrolment as matters stand. The “boss” will characteristically be close to the “shop floor” in what, in many cases, be “start-up” businesses where cash flow will be tight and the reality is that employees will be unwilling to do anything that jeopardises the future prospects of the business in whose future profits their livelihood depends. We also recognise that these businesses will represent the biggest part of the future compliance effort, and cost, for the Pensions Regulator. Stakeholder pensions had a minimum limit of 5 employees for the requirement to designate a pension to be offered, and we think this number would also be a good minimum for auto-enrolment into pension saving now. Where an employee requests that

he or she be auto-enrolled into pension saving, they should have a right to the employer contribution, *irrespective* of employee numbers in the firm, and the employer should have a duty in this respect. However, the very smallest firms should not be obliged to *offer* auto-enrolment, however.

- **Minimum salary** – basic state pensions and other benefits (although see above) will provide a good replacement rate for those on lower earnings, making personal saving into a pension of potentially marginal benefit when much-needed income could be better deployed elsewhere. We therefore think that a minimum basic salary of between £10,000 and £15,000 would be advisable before the requirement to auto-enrol becomes mandatory, rather than the £5,035 level at present. We understand that there are “cliff edge” and potential avoidance issues here, but think these would have been inevitable under the existing parameters in any case.
- **Definition of pensionable earnings** – the “band” approach to the earnings definition and the requirement for ALL earnings to be taken into account for this purpose has always been criticised as being complex and impractical for employers, employees and administrators to work with. We would suggest that once the Minimum Salary level is passed, all BASIC PAY (excluding bonus, commission or other benefits) be subject to combined contribution of 8%. This would align much better with existing practice. Again, we accept that there is scope for manipulation here but again, we would suggest that such scope existed under the current parameters.
- **Waiting period** – the concept of auto-enrolment from “day one” of employment always seemed fraught to us, with layers of complexity resulting from rushed communication processes, leading to the further complexities of the “refund” process for those who “opt out”. We think that a 3 month waiting period before auto-enrolment happens for all employees would be sensible, irrespective of scheme type, and would allow better communication of pension saving and its benefits, greatly reducing the opt-out rate. Given this, we think there should be no refund of contributions, obviating the need for this procedure to exist. Again, this is in line with generally accepted employment practice, and is clearly communicable to employees.

### ***National Employment Savings Trust (NEST)***

4. The original parameters of the requirements from government led to existing pension providers believing that they could not economically meet the specifications at the time. This led to the creation of NEST as we see it today, to meet the social policy requirement as it was seen at the time of origination.
5. The parameter changes suggested above would, we accept, move a little way from the original principles of universality and, for example, “day one” enrolment. However, we think they are practical, pragmatic and much easier for employers, especially small employers, to understand.
6. They also move the parameters of scheme operation much closer to how pension schemes of all Defined Contribution types are operated today. If the amendments suggested above were accepted, we think that existing pension industry participants could provide pensions to employers at an economical cost competitive with current proposals, although this might need to be differentiated by employer size. This would obviate the need for a separate public service scheme such as NEST.

Thank you once again for giving the Institute of Directors the opportunity to submit evidence to the Review. We hope you find our comments useful and would welcome further discussion on any of the above issues. If you need any further information about the points raised in this submission, please do not hesitate to contact me.

Yours faithfully,

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