Northern Ireland Assembly

Committee for Communities

OFFICIAL REPORT (Hansard)

Pensions (Extension of Automatic Enrolment) Bill: Department for Communities

23 May 2024

NORTHERN IRELAND ASSEMBLY

Committee for Communities

Pensions (Extension of Automatic Enrolment) Bill: Department for Communities

23 May 2024

Members present for all or part of the proceedings:
Mr Colm Gildernew (Chairperson)
Mrs Ciara Ferguson (Deputy Chairperson)
Mr Andy Allen
Mr Brian Kingston
Mr Daniel McCrossan
Mr Maolíosa McHugh
Ms Sian Mulholland

Witnesses:

Mr Richard Jordan	Department for Communities
Ms Hayley Ward	Department for Communities

The Chairperson (Mr Gildernew): Good morning. I welcome, from the Department for Communities, Hayley Ward, who is head of the state pensions and private pensions branch, and Richard Jordan, who is from the state pensions and private pensions branch. Hayley, I believe that you will give us an opening statement. It should be brief — five to 10 minutes — or as succinct as possible, please, after which Committee members will ask questions.

Ms Hayley Ward (Department for Communities): Good morning, Chair, and thank you for the opportunity to attend the Committee today. We are pleased to have the opportunity to speak to you about the Pensions (Extension of Automatic Enrolment) Bill. We have provided the Committee with a fairly comprehensive written briefing on the Bill. If the Committee is content, I will run through the background to the Bill and its provisions.

The Pensions (No. 2) Act (Northern Ireland) 2008 provided for automatic enrolment in workplace pensions in order to enable more people to save for their retirement and to make saving the norm for most people in work. Automatic enrolment was introduced here in 2012. The law requires all employers to enrol all eligible workers in a qualifying workplace pension scheme and pay pension contributions. Eligible workers are those who are not already in a workplace pension scheme, are between the age of 22 and state pension age and earn more than the minimum earnings threshold, which has been £10,000 a year since 2015-16. In 2024-25, contributions are required to be made on earnings between the lower limit of the qualifying earnings band, which is £6,240, and the upper limit, which is £50,270. The minimum contribution rate is 8% of earnings. Of that 8%, employers contribute a minimum of 3% and employees 5%, part of which includes tax relief.

Workers can opt out of automatic enrolment. Every three years, however, an employer must re-enrol eligible employees who have exercised their opt-out of automatic enrolment with that employer.

Employees can opt out again at that stage. Unless they opt out, employees will build up a private pension through their contributions and those of their employer.

Since the introduction of automatic enrolment in 2012, saving for retirement has become the norm. In 2021, 73% of employees in Northern Ireland belonged to a workplace pension scheme, which was up from 44% in 2013. In 2021, 72% of employees in Northern Ireland aged 22 to 29 were in a workplace pension scheme, which was up from 25% in 2013.In 2021, however, only 17% of employees aged 17 to 21 in Northern Ireland were in a workplace pension scheme, which was up from 1% in 2013.

A statutory review of automatic enrolment was carried out in 2017 and found that young workers aged 18 to 21 miss out on automatic enrolment, because the lower age limit is 22. The review also found that workers who earn more than £10,000 a year in a job are automatically enrolled, but, because contributions are calculated from £6,240 — the bottom of the qualifying earnings band — they miss out on a potentially significant contribution, possibly more than once if they have more than one job.

The 2017 statutory review made two key recommendations: to lower the age at which qualifying workers are automatically enrolled in a workplace pension scheme and to reduce or repeal the lower limit of the earnings band. The measures in the Bill arise from the recommendations made in the 2017 statutory review.

Today, we bring to the Committee the Pensions (Extension of Automatic Enrolment) Bill, the purpose of which is to amend and extend existing powers conferred on the Department, as provided for by the 2008 Act. The Bill will provide the Department with the powers to lower the age at which qualifying workers are automatically enrolled in a workplace pension scheme — the current lower age limit is 22 — and reduce or repeal the lower limit of the qualifying earnings band so that contributions are calculated on more of a person's earnings.

The proposals to extend automatic enrolment are intended to continue to normalise pension saving among workers, help lower earners build resilience for retirement, support individuals in multiple part-time jobs and simplify automatic enrolment for employers. Workers will, as now, be able to opt out of automatic enrolment.

The Bill corresponds to the Pensions (Extension of Automatic Enrolment) Act, which was enacted in Great Britain in September 2023. It is understood that subordinate legislation that is required to implement the changes to automatic enrolment in Great Britain will be in place to come into operation in the first few years of the next Parliament, and the Department would seek to follow that timeline. Although pensions are a devolved matter, in general, pensions policy and legislation here operate in line with corresponding pensions provision in Great Britain and in line with section 87 of the Northern Ireland Act 1998. Many employers and private pension schemes operating in Northern Ireland are UK-wide. It is therefore highly desirable that the same provisions be in place in Northern Ireland to ensure parity across all jurisdictions.

In accordance with the Department's duty under section 75 of the Northern Ireland Act 1998, it was considered that an equality impact assessment (EQIA) was necessary and that the Department was required to consult on it. While it was recognised that it would be for an incoming Minister and a new Executive to consider whether the Bill should proceed, it was deemed prudent to consult on the draft EQIA during the interregnum. Accordingly, a draft EQIA on the proposals was published on the Department's website on 18 September 2023, and the public consultation on it ran from 18 September 2023 to 11 December 2023.

The EQIA considered the proposals in the context of their impact on groups set out in section 75 of the Northern Ireland Act 1998. The impacts were considered in light of available data and the policy intention in order to determine whether their effect was adverse. The EQIA found no adverse impacts on any of the section 75 categories as a result of the proposals. The public consultation received five responses, none of which identified any adverse impacts on the section 75 groups as a result of the proposals. Subsequently, the EQIA has been updated and finalised to reflect the outcome of the public consultation. Following ministerial approval, the EQIA final report was published on 26 April 2024.

If the Committee is content, I will run through the Bill's clauses.

The Chairperson (Mr Gildernew): Yes.

Ms Ward: Clause 1, which is titled "Automatic enrolment: persons and earnings affected", amends the 2008 Act to insert three new regulation-making powers: in section 3, "Automatic enrolment"; in section

5, "Automatic re-enrolment"; and new section 13A, "Qualifying earnings: reduction or removal of lower limit".

Clause 1(2) inserts a regulation-making power into section 3 of the 2008 Act to enable the Department to amend section 3(1)(a) in order to decrease the age at which the employer has an obligation to enrol job holders automatically in a pension scheme. As I said, workers will still be able to opt out of automatic enrolment as before.

Subsection (3) inserts a regulation-making power into section 5 of the 2008 Act to enable the Department to amend section 5(1)(a) and section 5(1A)(a) to decrease the age at which an employer has the obligation to re-enrol job holders automatically in a pension scheme.

Subsection (4) inserts new section 13A into the 2008 Act that includes a regulation-making power to enable the Department to reduce or repeal the lower limit of the qualifying earnings band. It will also enable the Department to make regulations to repeal section 9 of the 2008 Act, which is titled "Workers without qualifying earnings". That is necessary, because that category would no longer be appropriate if the lower limit of the qualifying earnings band were to be abolished. Any regulations made under the new power in section 13A may also include such amendments, repeals or revocations of other Acts as appear to the Department to be expedient in consequence of the repeal of section 9 and section 13(1)(a).

Under clause 1(5), regulations made under any of the powers in the Bill will be subject to the confirmatory resolution procedure. Regulations made under clause 1 will amend primary legislation, so it is considered appropriate for those regulations to be subject to the confirmatory resolution procedure to allow for Assembly scrutiny.

Clause 2 is titled "Commencement and short title". Clause 2(1) contains a standard power for the Department to bring clause 1 into operation by statutory rule. As is usual with commencement provisions, statutory instruments made under clause 2 are not subject to any Assembly procedure. The clause also provides the short title of the Bill.

We are happy to answer any questions that the Committee may have.

The Chairperson (Mr Gildernew): Thank you for the briefing, Hayley. I have a couple of questions before I go to members. I note that it seems very positive that the percentage of employees in Northern Ireland aged 22 to 29 in a workplace pension scheme went up from 25% to 72% between 2013 and 2021. That is to be noted.

The Department has provided a copy of the Bill and the explanatory and financial memorandum (EFM). Can you advise whether we can expect a delegated powers memorandum (DPM) based on the extent of what is proposed in new section 13A?

Mr Richard Jordan (Department for Communities): That is in preparation, and the Committee should have it shortly.

The Chairperson (Mr Gildernew): OK. Thank you.

My other question is about young people aged under 22. I suspect that one of the last things that they are thinking about is their pension. What are the plans to communicate with young people to make them aware of the legislation? I am also struck by the fact that some of them can now be working a patchwork of jobs, so this could be a complicated area. Will a dedicated communication plan be considered to ensure that young people know?

Mr Jordan: There is a plan in place. It is early days, however. Until the Bill is through its legislative stages, we cannot move forward too quickly with that. We work in tandem with GB, which plans to have its subordinate legislation in place this year, but, given what has happened recently, the date for it may be pushed back. We will work with GB to create a full and proper communications plan.

Ms Ward: To add to that, the early plans are to communicate through the usual advisory platforms, including dedicated government websites and press releases. We also have the Pensions Advisory Service and MoneyHelper, which are free UK-wide services that are tasked with ensuring that people have free access to the information and guidance that they need to make financial decisions, including on pensions. Employers must provide information on automatic enrolment to eligible employees, including information on their right to an employer contribution. The Pensions Regulator, which operates UK-wide, has a statutory duty to oversee and enforce compliance with employers' automatic enrolment duties.

The Chairperson (Mr Gildernew): That is all great, but I have to say that probably the second-last thing that young people are thinking about is dedicated government information websites. We should be thinking about going to where young people get their information from and making sure that it is communicated there.

I will now bring in members to ask questions.

Mr McCrossan: Thank you, Hayley and Richard, for being with us. I have listened to your presentation. The financial implications of the Bill for the public purse, employers and workers in the first year of implementation are set out in the EFM, which members will have seen. I was struck by some of the figures: extra employer contributions of £0·8 billion; extra employee contributions of £0·9 billion; and income tax relief of £0·2 billion. Considering the current problems that we face in finding funding to finance public pay claims, what will those figures mean for the public sector?

Ms Ward: The Bill will not impose any costs on businesses or employees at this time. Subordinate legislation will be required to implement the changes. The regulatory impact assessment (RIA) examined the impact of removing the lower limit and reducing the age to 18. You read out the additional costs. It is uncertain how employers will mitigate the costs, but the most common approach appears to be for employers to absorb additional costs with overheads and the effects of tax receipts on corporation tax, income tax, National Insurance contributions or VAT or a combination of all of them. Do you want to add anything, Richard?

Mr Jordan: The key thing to say is that it will not have any impact on the public purse in Northern Ireland. There will be no impact on manpower or on public-sector pensions. As Hayley said, there may be impacts further down the line on tax take, but that is UK-wide business, which is for His Majesty's Treasury (HMT) to determine. If the lower limit is removed, the increase in pension contributions works out as being an increase of £9 a week to a typical employee's contribution pension plan, £4 of which is paid by the employee, while a similar amount is paid by the employer, £1·20 of which is paid in tax relief. Weekly, per employee, that is a significant amount going into the private pension pot, but it is hopefully a moderate cost increase for the employer.

Mr McCrossan: I appreciate that answer, but, in the Northern Irish context and particularly when it comes to public-sector pay, the Assembly is told that there is no money, not even for classroom assistants and junior doctors, who are key components of the ticking clock that is our society. I assume that the £4 a head per person from the employer — government being the employer for each Department — will have a profound impact on Departments' budgets.

Ms Ward: Certain Departments automatically enrol public-sector employees from the age of 18. Some Departments already have that in place. I do not have a figure, but we can maybe look into that. It may not be as big an issue as it seems to be for the public sector, because an awful lot of people are already enrolled in a pension scheme.

Mr McCrossan: It certainly should not be an issue, but we are the Northern Ireland Assembly, and quite a lot of things that stem from the Executive tend to become issues when they should not be. It would be helpful to have the figures in order to see the impact of that extra financial cost on each Department.

I have another question. Given that additional costs will be absorbed by employers and the bill is coming from Westminster, will the Treasury resource any of the changes in any way? Has there been any discussion about how Departments will be impacted on?

Ms Ward: I do not believe so, but I will check for you.

Mr McCrossan: One of Bill's intentions, which you articulated in your opening remarks, is to help lower-wage earners build resilience for retirement. What might that resilience look like? Are there any estimates of the potential benefits for those people?

Ms Ward: People who have saved more over their working life as a result of automatic enrolment will spend more on consumption in retirement than they would have spent otherwise. It is expected that it will have a positive social welfare effect in the long term. The regulatory impact assessment covers that. The impact is supposed to be positive and ongoing into retirement.

Mr Kingston: Thank you for the information provided so far. I very much welcome the extension of automatic enrolment. I remember that, after the Bill became law in 2008, automatic enrolment meant that I was able to start contributing to my pension. Like a lot of people, I started a pension when I was a young, single man. Later, when I was married and had three young children, I stopped paying into my pension, because I did not have the finances and could not afford the contributions, so I understand why young people sometimes want to opt out. I remember that, when automatic enrolment came in, because of my employer's contribution, suddenly a payment started to go in. I very much welcome the fact that it is done automatically, unless people opt out. I am always surprised when I hear people say that they are opting out, although I know that it is to do with their personal finances. I try to make the point to them that their employer is putting in extra money, so they will be quids in if they enrol. That extra money will go towards their lifetime income, but it obviously depends on people's immediate circumstances.

I welcome the fact that the EQIA identified no adverse impacts on section 75 groups as a result of the proposals. That is positive. Daniel may have covered the point, but I want clarification on it: when the changes come in, will the cost be borne out of our departmental budgets, or will extra funding to cover them come from Treasury?

Ms Ward: I do not believe that there will be any extra money from Treasury. It looks as though the cost will be absorbed. We should maybe note that the public pension —.

Mr Kingston: I am talking about Civil Service jobs.

Ms Ward: I know and understand that. When automatic enrolment was brought in in 2012, it covered everyone from the age of 22 up to state pension age. That was a big change. We are talking about additional pension costs for the relatively small number of people whom we are now adding to automatic enrolment.

An estimated 39,000 NI employees between the ages of 18 and 21 may be eligible for automatic enrolment. When I say "may", I mean that those people earn over £10,000 a year and have been employed for over three months. Approximately 17% of people in that age range already participate in pension saving, so the estimated potential additional workload across Northern Ireland is for 32,000 people. I know that that sounds like a lot, but, in relative terms, it is small compared with the numbers involved between 2012 and 2018 after we brought in automatic enrolment. We also need to remember that the infrastructure for employers, including the Civil Service, is in place. Pension providers already have the means to do automatic enrolment. It is about extending the infrastructure, which hopefully should not be too burdensome for them, but there will be additional costs.

Mr Kingston: OK. Thank you.

Ms Mulholland: Thanks very much for your briefing. As someone who previously worked with young people, I echo what the Chair said about the chances of a 17- or 18-year-old going on to a government website to find out about their pension probably being close to zero. I hear what you say about not being able to put the communication plan in place until the Bill has completed its legislative journey, but I would really encourage the use of a different communication plan. It has to be youth-friendly and understandable by young people, and it needs to feed into a much bigger piece of work about encouraging young people to think about their future and understand that it is never too soon to start saving for their pension.

I know that others have talked about the cost of the employer contribution, but I would like a bit of clarity on the expectation of administrative savings for employers. The EQIA states that lowering the lower age limit will:

> *"reduce the administrative burden and cost",*

but the explanatory and financial memorandum states that there may be a:

"small additional business administration cost."

We have talked about public-sector workers, but will the change cost businesses such as SMEs more, or will administrative savings be made? I am just a bit confused about that.

Ms Ward: It is my understanding is that, during the 2017 statutory review, employers welcomed the change, because, at the moment, for pensions, they have to segregate the workers who are not automatically enrolled from those who are. It would be easier for employers if everybody were automatically enrolled. There is an additional administrative cost at that point to prevent those at that age from being automatically enrolled. An additional administrative cost is now being projected to include all those people in automatic enrolment. There will be initial administrative costs and initial changes to allow for those people to be enrolled automatically. Into the future, however, there should hopefully be some savings made, which is what we have understood from the 2017 review. Initially, to get those people automatically enrolled, some administration will be required.

Mr Jordan: There are three cost streams. First, there is the additional cost of the pension contributions that employers will have to make. Secondly, there is the initial cost that employers will have to undergo to familiarise themselves with the new processes and procedures. The third cost is from processing additional people who would not be automatically enrolled in the system.

The benefit stream is that employers will no longer have to create a sectioned-off group of staff members who do not get automatic enrolment because they are under a certain age, so there are trade-offs. It is slightly confusing, I admit, and it is early days for the cost-benefit analysis, but there is a balance to be struck.

Ms Mulholland: OK. Thanks.

Ms Ferguson: Thank you for the presentation. The communication aspect is important. Some members have raised that. Some data was missing from the equality impact assessment for some section 75 categories, particularly data concerning marital status and dependants, which have a huge impact on someone's income.

There were only five responses: one email from the Housing Executive and four received through Citizen Space. I have said on numerous occasions to other Departments that we need to look at how we can improve communication or have additional methods of communication for an equality impact assessment. As part of the EQIA process, you are involving, engaging with and educating people on something.

Those are more comments than questions, but I reiterate the fact that there need to be other means of having effective communication. For example, rather than wait, go out to youth clubs, schools and organisations and engage with and involve people in a process so that they are being educated that this is coming in. I was pretty disappointed to learn that there were only five responses.

The Chairperson (Mr Gildernew): If people opt out, will they automatically have been included and then have to wait to be excluded from the scheme? If so, how long is that expected to take?

Ms Ward: People will be automatically enrolled, and they have an opt-out clause, so they can opt out. The employer then has to re-enrol them every three years, however. The main aim of that is to remind employees that they can return to their pension scheme. That is an option for them. We want to encourage people to save for their pension.

The Chairperson (Mr Gildernew): They could be on a scheme for a number of months. Are their contributions during that time reimbursed, or do they sit in the pension scheme and are then stopped? What are the practicalities?

Ms Ward: My understanding is that their contributions would sit in the pension scheme. Whether they could be —.

Mr Jordan: There is a month-long opt-out period during which people can opt out and get their contributions back. After that point, if they decide to leave the scheme — they cannot opt out outside that one-month period — it depends on the pension scheme rules. Usually, people would not get their money back: it would sit in the pension scheme until they retired.

The Chairperson (Mr Gildernew): If there is only a one-month window, that speaks even more to the importance of communication. Thanks for clarifying that.

Mr Kingston: I return to the issue of the additional cost to the public purse for those in the public sector. There will be an adjustment to the lower qualifying earnings threshold and then an age reduction from 22 to 18. Those who are currently 18 have the option of opting in and receiving the employer's contribution. It is just that they will now be automatically enrolled unless they actively choose to opt out. There could still have been a cost, because of those already 18 opting in before the lowering of the qualifying earnings threshold. The GB legislation came in last year, is that right?

Ms Ward: Yes. The Bill was enacted in September 2023, but there has been no subordinate legislation yet. The cohort of 18- to 21-year olds is not being automatically enrolled yet.

Mr Kingston: I wonder whether we can write to the Finance Minister to make a case for putting an estimated figure on the cost. What will the additional cost to the public purse be? You said that there will potentially be 32,000 extra people in Northern Ireland in, I presume, the public and private sectors. Can we estimate the additional cost to the public sector in order to include that in our representations to Treasury? I know that some supplementary funding from Treasury was announced earlier this week. Is it possible to put a figure on the cost?

Ms Ward: Yes and no. It is difficult, because everybody has different earnings. You would be giving a very approximate figure based on the range of salaries in the public sector. You could certainly estimate the number of people whom we have in the public sector. We can certainly explore it with the Department of Finance. It may be that either the Department for Communities or the Committee can do it.

Mr Jordan: It may be something that we can take up with the Department.

The Chairperson (Mr Gildernew): Daniel asked for those figures. If the Department can get the figures in the first instance, we can see what they are.

Ms Ward: We can certainly look into that for you.

The Chairperson (Mr Gildernew): I hope that everyone is content with that. Members have no other questions.

In light of all the complexity, we should ask the Committee Clerk to write to the Examiner of Statutory Rules for a view on the powers referred to in the Bill.

Hayley and Richard, I thank you for the information that you gave, and I appreciate your coming to the Committee this morning.