

# No time to waste: minimum pension contributions must rise

A new report by the Association of British Insurers says a significant increase in the minimum contributions to workplace pensions is required.

## **October will mark the tenth anniversary of the introduction of automatic enrolment (AE) into workplace pensions.**

The latest body to publish its thoughts on the past ten years and what needs to happen over the next decade is the Association of British Insurers (ABI).

The ABI notes that “AE has turned the tide on decades of falling participation in pensions saving” with over £28 billion more being saved in workplace pensions in 2020 compared to 2012.

However, it sees several challenges ahead that could affect you whether you are an employer, employee or self-employed:

- **Participation:** The current rules mean that anyone earning less than £10,000 a year misses out on AE, even if they have multiple jobs and total earnings above that figure. Similarly, at present, only workers aged at least 22 are automatically enrolled. The ABI would like to lower the minimum age to 18, which could mean one million people joining workplace pensions, according to research from the Onward think tank.
- **Earnings basis:** Currently, the first £6,240 of earnings are excluded when calculating employer and employee contributions (with an earnings cap at £50,270). The floor hits lowest earners the hardest, effectively halving the notional contribution rates from someone earning £12,500 a year. The ABI wants every pound of earnings to count towards contributions.
- **Contribution rates:** The AE contribution rates have been 3% for employers and 5% (before tax relief) for employees since 2018. The ABI, along with nearly all pension professionals, believe these should increase. The ABI's suggested rates are 6% for employers and 6% for employees, set to be phased in through to 2031.
- **Self-employed:** The self-employed are outside AE and the result has been poor pension provision. The ABI bravely says, “One idea proposed to fund pension saving is to increase Class 4 NICs to 12% for all self-employed people but divert 3% of this to a pension pot if individuals also contribute to into a pension.”

The clear message here is that contributions must rise across the board. That makes sound financial planning sense but right now, with a cost-of-living crisis, the political appetite for taking up this challenge looks limited. *To review your pension provision, just get in touch. The value of pensions and investments and the income they produce can fall as well as rise. You may get back less than you invested.*

*Past performance is not a reliable indicator of future performance.*

**Social media suggestion** A new report from the ABI is sending a clear message to employers, employees and the self-employed – a significant increase in the minimum contributions to workplace pensions is required. #pension #minimumcontributions #retirement [insert link] 230 characters without link