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Pensions for all - except poorest Britons

By Dan Hyde
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More than a million lower-paid workers will be left out of the pensions-for-all plan announced by the Government today.

As part of its bid to solve Britain's pensions timebomb problem, where millions of apathetic non-savers are 'walking blindly' into retirement hardship, the Government wants every single UK worker automatically enrolled into a company pension.

Pensions minister Steve Webb has confirmed that all businesses – from the smallest to largest – will have to contribute into pensions for their employees, starting in 2012.

But, crucially, he revealed that only staff earning more than £7,475 a year will need to be signed up.

It means that over a million lower-paid workers could be left out to dry. To benefit from employer contributions, they will need to join voluntarily.

Yet even if low-earning Britons do sign up (or decide not to opt out), experts say they'll not necessarily enjoy the golden retirement promised by the Government.

Smaller companies without pension plans will auto-enrol employees into the National Employment Savings Trust – a low-cost, nationwide pension plan.

But minimum employee contributions will start at just 2% of earnings until 2016. Tom McPhail, of Hargreaves Lansdown, calculates that those with incomes just above the £7,475 threshold will pay just £141 a year into their pensions.

That would produce a pension income of less than £5 a week after 20 years of saving.

McPhail says: 'Workers who assume this guarantees a comfortable retirement are likely to be sorely disappointed. This level of contributions should therefore only be seen as a starting point for employees to build on.'

Pension consultants at Aon Hewitt predict a person earning £20,000 who starts their pension aged 30, can expect an annual retirement income of £1,973 (9.87% of their salary) if they make the minimum contributions to NEST.

Reacting to the news, pensions lawyer Jennie Kreser, of Silverman Sherliker, blogged to say: 'Even when the employer contribution is factored in this will buy a very poor pension indeed come retirement'.

Furthermore, many larger employers are expected to scale back any generous pension schemes they offer voluntarily to workers, according to a study by the Association of Consulting **Actuaries**. At present, employers pay an average of 6.1% of salaries into their pensions. This could now fall to make up for additional staff being auto-enrolled.

The independent review into workplace pensions, commissioned and accepted 'in full' by the Government, defends the exclusion of lower earners.

It says: 'There are relatively few people who have low earnings throughout their lives. More importantly, most of those on low earnings live in family units and have a working partner with significant earnings and are therefore likely to benefit from pension saving.'

Joanne Segars, of the National Association of Pension Funds, gave her backing to the controversial plans to include all employers. She said: 'It is a relief that all employers will be brought into the 2012 programme, and that smaller outfits will not be exempt. The whole point of this reform is that pensions reach all workers, including those in small firms.

Back in May, many of Britain's low-income earners said they intend to opt out of the new schemes, with around 40% of those earning £15,000 or less a year expect to reject the new-fangled plans if automatically enrolled, according to a study by independent consultancy Hymans Robertson.

George Ladds, of the Fair Investment Company, expressed concerns over potential **mis-selling** if workers are not made fully aware of the changes in 2012.

'With auto-enrolment, the Government is forcing people into a scheme that will almost certainly be a second rate option and is potentially opening up a future pension mis-selling scandal, he says. 'If people discover ten years down the line that their funds are not performing – who will be accountable? The employer? The Government? NEST?'

Automatic enrolment will start with large employers in October 2012. Employers and employers having to pay in only 1% of relevant pay apiece until October 2016. The minimum contribution level will then rise to 5% of earnings from employees and 3% of pay from employees from October 2017.

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