**Looking to the future – great member security and rebalancing risk.**

**Submission to Department for Work and Pensions**

**Chartered Institute of Personnel and Development (CIPD)**

**January 2024**

**Background**

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 155,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

**Our Response**

**Summary of insights**

The CIPD welcomes the opportunity to respond to this consultation. While some of our members regard their organisation’s workplace pension as another cost of doing business, many others see them as a way of setting themselves out in the labour market, in terms of recruitment and retention. They also see workplace pensions as an important aspect of employee financial wellbeing. According to a survey carried out by the CIPD in 2022, 83% of said that being able to save for their future was important.

However, while saving for the future is seen as important by many workers, their understanding of pensions is lacking. [CIPD research](https://www.cipd.org/uk/views-and-insights/thought-leadership/cipd-voice/defined-pension-value-money/) finds that 17% of employees don’t know what type of workplace plan they are saving into, and 28% of those who know that they are members of a workplace defined contribution (DC) plan don’t know how much their employer is contributing.

However, these finding probably reflect employer engagement with pensions. Other CIPD research finds that just 33% of private sector firms always include details of the workplace pension in their job adverts. Companies with 1,000 or more employees are no more likely (34%) to publish this information than those with between 2 and 250 employees (33%). By comparison, 59% of public sector organisations always publish this in their job adverts.

While the proposals contained in this consultation could help ensure good outcomes for pension savers, a quick and easy win would be to require organisations to include information about the pension plan when they advertise job vacancies, alongside salary information. This would help boost pension awareness and could help reduce the size of the pension gap. The CIPD mentions its DC pension plan in its job adverts.

However, if we want to boost the chances of workers being able to afford a reasonable lifestyle in retirement, then both employees and employers need to contribute more to workplace pensions. This is why we support both: the PLSA proposals to increase gradually the minimum amount of pension contributions from 8% to 12%; and the approach suggested in the report [*Raising the Bar: A framework for increasing auto-enrolment contribution*](wpieconomics.com/site/wp-content/uploads/2023/11/Phoenix-Report-231116-Web.pdf)*,* which set out the trigger points for increasing or pausing any uplift in pension contributions.

We also back the work being carried out by the Department for Work and Pensions, the Pensions Regulator, and the Financial Conduct Authority to create a [value-for-money framework.](https://www.cipd.org/uk/about/public-policy/our-calls-for-action/value-money-defined-contribution-pensions/) This framework will help both employers and employees evaluate whether their pension plans are delivering decent outcomes.

**Questions**

***Question 1: What are the key considerations to take into account before deciding the process to implement a lifetime provider model and what elements would need to be in place?***

The *objectives* of the lifetime provider model (LPM) need to be set, which must involve employers, employee representatives, and pension providers. These parties also need to be involved in creating the mechanisms that will be used to *assess* whether these objectives are being met.

An *action plan* must be created in terms of who is responsible for what, and by when. For example: would all employees be able to select their pension provider on a given day; would the move to the LPM be linked to employer size, with the largest organisations offering the LPM first; or would the LPM initially apply to just those people who are either new to employment or are changing employers?

*A review* will need to be established to assess whether the changes have gone according to plan and what impact the move to the LPM is having in generating improved outcomes for employees, employers, and the economy.

Under the LPM, there will need to be a *list of approved pension providers*, so employers know that these suppliers are legitimate and provide the employer with value-for-money.

A decision must be made concerning the best way to provide pensions for those *new to the workforce* and have little experience of pension savings, such as the employer arranging the pension plan for them.

*Expectations must be set*, so that employees didn’t think they can ask their employers to contribute to a pension that they see as unaffordable. For example, an employee asking for their employer to contribute to a defined benefit pension scheme to which they once belonged.

There would need to be a reasonably *level playing field* in terms of employer pension contributions, say a minimum of 6%. The employer could then contribute more than this if it made sense in people or business terms.

An *education and communication campaign* must be created. One audience is HR, payroll, and finance professionals, who need to know what to do, how to do it, and by what deadline. Another is employees, so they know what they need to do, how, and by when.

***Question 3: What are the other consideration and building blocks that need to be in place before moving to a single lifetime provider, including any transitional arrangements?***

In addition to the considerations mentioned above, under the LPM a new payments mechanism must be created. Instead of the employer having to pay over its and its employees’ contributions to a multitude of pension providers, an industry-financed body should be established to take the pension contributions from employers. This new body would then match the contributions for each employee and pay them over to the appropriate pension provider.

The CIPD’s *Labour Market Outlook*, Winter 2024 survey (carried out between the 3 January 2024 and the 23 January 2024) asked 2,000 employers what impact the shift to the LPM will have on the administrative costs associated with providing a workplace pension. If you are interested in the findings, we can send you the results.

We also asked to what extent would the creation of a payments body would have on administration costs of the LPM compared with the scenario where employers had to pay over the relevant contributions to the various pension providers selected by their employees. If you are interested in the responses to these questions, we can send you the results.

In our survey we explored whether just allowing those employees that have changed jobs the option to select their own pension provider would help cut the administrative costs of the LPM idea. We can send these findings to you as well, should you be interested.

Other considerations that need to be resolved before moving to a LPM are:

* making sure that contribution transfer systems are in place for those people, typically part-time, who have several employers at the same time; and
* how to deal with employees who change employment frequently, such as seasonal workers.

***Question 4: What are the advantages and disadvantages of moving to a member-led lifetime provider model prior to considering introducing a default lifetime provider model?***

One disadvantage of the LPM is that employers may disengage with workplace pensions. To explore investigate this, our survey has employers if they would be less likely to offer a workplace pension scheme under the proposed LPM regime. In addition, we have also asked whether employers would also be less interested in the pension awareness of their people. Again, we would be happy to share these results with you to help inform your response.

Our survey also inquired about the potential administrative complexity of having to pay over money to different pension providers, unless a more straightforward solution was found.

***Question 5: What is the right timing and sequencing of these potential changes? Which part would best be implemented first and why, or should any be implemented concurrently?***

The timing depends on the objectives. For example, if the aim is to minimise workplace disruption, then we should follow a timetable similar to the one used for the introduction of automatic enrolment, starting with the largest employers first and gradually covering medium and smaller employers. Or we could select a period, such as September 2026, and say that all employees who change jobs from that month onwards will be able to select a previous pension provider.

However, nothing can start until: the systems are in place to help employers pay over their and their employees’ pension contributions; processes are in place to deal with those who change jobs frequently or have more than one employer; and a communication/education campaign for employers and employees has been created.