Pensions auto-enrolment freeze risks leaving shortfall for retirees

The auto-enrolment earnings trigger will remain at its current level of £10,000 between 1 April 2025 and 30 April 2026, it was confirmed earlier this week

Torsten Bell, the Labour MP for Swansea West and former head of the Resolution Foundation think tank, has been appointed pensions minister (Photo: Department for Work and Pensions)

Emily Braeger
Money Reporter

January 23, 2025 5:27 pm (Updated January 27, 2025 2:08 pm)

Save

Experts have called for a "thorough review" into the pension industry after pensions minister Torsten Bell confirmed the auto-enrolment threshold will remain frozen for the 2025-26 financial year.

On Tuesday, Bell confirmed the auto-enrolment earnings trigger will remain at its current level of £10,000 between 1 April 2025 and 30 April 2026.

This also includes the lower earnings limit of the qualifying earnings band remaining at £6,240 and the upper earnings limit remaining at £50,270.

Despite most being "unsurprised" by his decision, experts have criticised it, with one saying it is a "missed opportunity" to address the issue of people not having enough saved for retirement.

It was Bell's first review of the thresholds, that are completed every year.

Bell's decision will ensure businesses do not face another extra cost following the rise in the living wage and increase in employer national insurance contributions.

The latter measure, in particular, has been blamed for stagnating growth and job losses.

But with continued discussion over the future of the triple lock for state pensions – guaranteed for the remainder of this Parliament – and concerns that people are not saving enough for their pensions, some said the Government must do more.

Ian Futcher, financial planner at Quilter, said: "While freezing the thresholds provides stability for both employers and employees, it is still a missed opportunity to drive higher contributions that could secure better retirement outcomes for millions of workers."

He also argued the Government's decision puts the onus on individuals to ensure they are saving enough for their future.

Mr Futcher added: "While auto-enrolment has transformed pension saving, those relying solely on minimum contributions may find themselves falling short of the retirement they desire.

"Small increases now, even as little as 5 per cent, could be the difference between a retirement of necessity and one of choice and comfort."

However, some, including former pensions minister Sir Steve Webb, think freezing the auto-enrolment trigger was a smart move.

'A thorough review is needed urgently'

Rachel Vahey, head of public policy at AJ Bell, said a thorough review of whether people in the UK are saving enough for retirement is needed urgently.

She said: "The Department for Work and Pension's (DWP) annual check of the automatic enrolment thresholds has the whiff of a tick box exercise.

"Instead, we need a thorough review of whether people in the UK are saving enough for retirement.

"The Government promised us this, but phase two of the pensions review appears to have been kicked into the long grass.

"It needs to pick this back up again, along with plans to put into action the changes already agreed to lower the auto-enrolment minimum age to 18 and count contributions on the first pound of salary upwards."

She admits that asking people and employers to put more towards pension saving is always going to be tough but said "the longer Labour postpones addressing the crucial problem of pensions adequacy, the worse this problem is likely to become.

"If we are to help people enjoy a decent income in retirement, it's something the Government is going to need to get to grips with sooner rather than later."

Another issue is that employers do not have to pay pension contributions on any salary above £50,270 – the same level when the higher rate of income tax kicks in. But HMRC's own stats show the number of higher rate taxpayers is expected to have increased by over 40 per cent since 2020-21.

She said: "As wages continue to go up, more people could be missing out on valuable pension contributions on the part of their salary above £50,270."

Mr Bell said: "Everyone needs the security of a decent income in retirement, so closing pension savings and entitlement gaps, whether of gender, ethnicity or faith, is important. Automatic enrolment has driven significant progress but there is further to go.

"We encourage employers to support their employees from minority backgrounds to make informed decisions about their retirement savings and raise awareness of Sharia-compliant investment options."

'This is likely to prove damaging for this end of the jobs market'

Despite acknowledging people need to save more into their pension plans, Jason Hollands, managing director of Evelyn Partners, fears the impact the freeze will have on businesses who are already having to grapple with additional costs.

He said that recent Budget changes, including the increase in the minimum wage for low earners, the rise in employer NICs, and the reduction in the threshold at which these apply, have hit business owners up and down the country hard.

“The freeze in the threshold for triggering auto-enrolment will in itself see costs increase for employers, as recent data for the three months to November last year revealed average wage growth has been picking up, rising to 5.6 per cent over the period – including bonuses – and that is before 6.7 per cent increase in the national minimum wage only comes into effect in April.

“This is sure to see more people hit the trigger level for pensions auto-enrollment, piling on costs for companies.

“On the surface this might all seem positive for low-income employees, but it is likely to prove damaging for this end of the jobs market.”

The AE trigger was set at £10,000 annually in the 2014-15 tax year and has remained frozen since then. The lower and upper thresholds have been frozen for five years.

Mr Hollands said he suspected the auto-enrolment trigger would be frozen due to the already frozen income tax personal allowance thresholds.

Millions not saving enough for retirement

In September last year the Institute for Fiscal Studies think tank estimated between 30-40 per cent of private sector employees – around 5-7 million people, were on track to fall short of standard retirement benchmarks.

There have also been warnings that the state pension age would have to rise to 71 by 2050 if the triple lock mechanism remains due to the cost.

The state pension is at present 66 for men and women, rising to 67 from 2028 and a further planned to increase to 68 in 2044, although this may change after review.

The state pension bill is estimated to grow to around £148bn by 2027/28 from £110bn in 2022/23, according to the Office for Budget Responsibility. Under the current policy, until 2050 it is estimated to grow to around £200bn, according to the Institute of Fiscal Studies (IFS).

'The trigger should be scrapped altogether'

Former pensions minister Ros Altmann said she wants to see the trigger scrapped altogether.

In her opinion, anyone earning below £10,000 should be just as entitled to receive pension contributions from their employer as those who earn more than that.

She said: "Especially for those people, mostly women, who have more than one part-time job but each pay below the £10,000, they lose out on pensions altogether and that seems most unfair.

"Legislation was passed to ensure pension contributions are made from pound zero, rather than from the lower earnings limit of band earnings, but the Government has not yet put regulations in place to start this happening.

"The same legislation also proposed anyone under 22 should be able to start a pension at work automatically as well, but these young people are still waiting for the regulations to enable this.

"Of course, those not auto-enrolled can, in theory, opt in, but the whole point of auto-enrolment is that they should not need to and therefore they automatically get money in their pension from their employer each month."

In contrast, Sir Steve Webb, former pensions minister and partner at pension consultants LCP, thinks freezing the auto-enrolment trigger for another year was a smart move.

He said: "The point at which workers have to be enrolled in a pension has been frozen for many years.

"As wages increase, and particularly as the national living wage increases, this means that more and more lower-paid workers will potentially benefit from a workplace pension with a contribution from their employer.

"Whilst this is a sensible approach, more fundamental reform is needed to make sure that millions of people who are currently saving into a workplace pension are paying a realistic amount.

"Sensible reforms were announced at the end of a 2017 review by the Government, but these are still to be implemented. The Government needs to grasp the urgency of the under-saving crisis."

A DWP spokesperson said: "We have confirmed that automatic enrolment thresholds for 2025/26 will remain at the same levels as last year, to ensure continued stability for businesses.

"We will publish the scope of the next phase of the wider pensions review in due course which will consider further steps to boost growth and improve pension outcomes, including assessing retirement adequacy."

How auto-enrolment works

Auto-enrolment simply means your employer will set up a pension for you without you needing to ask to join.

This will happen if you're a UK resident and:

- usually work in the UK
- are between the age of 22 and 66 – the state pension age
- earn more than £10,000 a year or the weekly and monthly 'earnings thresholds'
- don't already have a suitable workplace pension

This includes if you're on a short-term or zero-hours contract, away on maternity, paternity, shared parental, adoption or carer's leave or an agency pays your wages.

If you're self-employed or the only director and employee of a limited company, auto-enrolment doesn't affect you.

The earnings thresholds for auto-enrolment are:

- £192 a week
- £833 a month