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# A pay cut for the poor [1]

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If Britain?s coalition government is already weary from the barrage of charges that its policies are ?unfair? to the less well off, just wait until the lower-paid realize they?re facing a 5% cut in their take-home pay starting next year.

The Pensions Regulator has just issued a reminder [3] (pdf) that all employers will have to provide a pension arrangement to all employees, beginning in October of 2012 on a widening basis until 2016. This requirement calls for a minimum total contribution to an approved pension scheme of 8% of salary, of which at least 3% must be contributed by the employer and the rest by the employee. Employers may choose to introduce a more generous scheme if they wish but the 8%/3% is the minimum requirement.

In practice, the impact will fall mostly on the lower paid since larger companies already have pension arrangements that meet minimum requirements. The greatest impact will be on the smallest companies like local traders where salaries are lower or on companies using a fluctuating workforce like restaurant chains where, again, the salaries are lower.

For employees of such companies, this pension requirement will mean an immediate cut in take-home pay of 5% if the employer chooses the minimum 3% contribution for itself. To be sure, the employee doesn?t ?lose? that money; it?s just not available until retirement. The scheme was introduced by the previous Labour government but, as its rollout starts with larger companies in 2012, it will be affecting smaller companies and the lower paid in the run-up to the next election. On top of everything else like inflation and VAT increases, this will be additional fuel to the ?unfair? brigade. Watch out for wheezes that will seek to mitigate the short-term effects of the new pension-savings requirement.

We?ve already warned here of the dangers from government meddling in NEST, a cheap?n?cheerful pension scheme being set up by the government for those companies who can?t be bothered to set up their own. The 8%/3% rule will also be vulnerable to political manipulation by successive Chancellors, just like NI has been. Remember ?pension simplification? in 2006? That got pretty complicated in a hurry!

Britain, like all modern economies, must significantly increase retirement savings so, on the surface, a mandatory regime may seem justified. However, compulsion seldom delivers the desired result. After all, wasn?t the original National Insurance scheme supposed to deliver a proper pension?

A far better route in the long run is for the government to let individuals figure out their own pension provision. To do that, though, the government must first end the distortions to sound investment decision-making: keeping its own financial house in order, reforming and tightly controlling the benefits system, preventing housing bubbles and no constant fiddling with the savings & investment tax regime.

There?s no magic bullet here. Rather, it?s the long slog of reversing decades of growing state paternalism that stole from the future to pay for the present.



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[1] http://www.adamsmith.org/blog/welfare/a-pay-cut-for-the-poor
[2] http://www.adamsmith.org/taxonomy/term/5819
[3] http://www.thepensionsregulator.gov.uk/docs/intro-to-work-based-pension-changes-2011.pdf
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com