

Preparing for pension reform: The information needs of small and micro employers at auto-enrolment

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Background and methodology

The Pensions Act 2008 sets out workplace pension reforms introducing a legal duty on employers to automatically enrol their eligible workers, (if they meet certain age and income criteria) into a suitable pension scheme from 2012. As a result, it is expected that between five and nine million working-age adults will be newly saving or saving more in workplace pensions.

The Department for Work and Pensions (DWP) commissioned Ipsos MORI to undertake research to help it understand the information needs of small and micro employers and to inform the development of information and communications activities arising from the reforms. The research, which took place in autumn 2008, explored what information small and micro employers need to help them make decisions on implementing and complying with the new requirements, and who influenced their views and decisions on pension provision.

Following scoping interviews with employers' organisations, the main stage of the research comprised 78 in-depth face-to-face interviews with a broad cross section of small and micro employers (employing up to 50 workers).

What matters to small and micro employers?

Small and micro employers wanted to focus on their core objectives. These were, first and foremost, to exist, and if possible to thrive and make money, which in turn would benefit their staff. The issues of most importance to small employers were, therefore, those which either

reinforced or obstructed their ability to achieve these objectives.

The fieldwork took place at a time of significant economic downturn and this affected employers' views. It meant that, for most, economic considerations loomed largest. The economy, business costs, cash flow, and taxation were what mattered most to small employers. Cutting across these financial matters, was a concern with regulation, or red tape, often considered an obstruction to business.

Small and micro employers generally voiced concerns about pensions: the reforms would cost them money; they would be obliged to take responsibility for something which most felt should be solely a matter for their staff; and it would impose a further administrative burden and cost time which they could ill afford to spend on something they did not regard as core to the success of their business.

Information sources used by small and micro employers

All employers are different. They sourced information according to their individual circumstances, their personal preferences, and the type of information required.

Accountants were clearly small and micro employers' most identified source of information, both when it was received unprompted and when small employers proactively sought information of any kind. A relationship of mutual trust between accountant and employer, often long-standing, was the basis for this. Accountants were perceived as knowledgeable, up-to-date and professionally independent, displaying integrity and flexibility.

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Small and micro employers were generally confident that their accountant would take the initiative to contact them whenever necessary – such as about proposed changes in taxation or legislation, intelligence on market conditions, or matters arising from transactions or the accounts – through newsletters, seminars or during regular or ad hoc meetings. But accountants also had a vital **reactive** role. Small employers wanted their accountants to be there for them when they needed more detail, a better understanding in ‘plain English’ of things they had come across, or action they needed to take. This was not an automatic relationship; accountants had to earn that reputation with each employer and this relationship could take time to build.

The information journey, however, did not necessarily start with the accountant. A great range of informal sources brought information to small and micro employers’ attention – triggered by family, friends, customers, suppliers – as did more formal networks of business colleagues through trade associations, the national, local or specialist media, the DWP and other government departments, and other public sector units bodies as local authority business development units and the European Union (EU). Government departments were regarded as the most authoritative source of information, particularly in terms of literature (notably from Her Majesty’s Revenue and Customs (HMRC) and the DWP). It was found to be important that government information was authoritative, secure, and accurate, thereby inspiring trust. Some small and micro employers would wait to receive formal information or guidance from government before taking any action or seeking further professional guidance.

In response to this, small and micro employers then typically researched these issues themselves. Some would bounce thoughts off their informal contacts; others would explore their personally preferred sources such as a government office, their trade association, or the Federation of Small Businesses. Others would use their own devices, notably the internet. Small employers would then finalise their investigations, and decide what, if any, action

would be required, with the help of information (and advice) from their most trusted sources: accountants, government departments or, depending on the subject matter, solicitors.

Small and micro employers’ relationships with accountants depended also on their size (micro employers, those with fewer than five workers, could not afford the same relationship as bigger employers, nor necessarily had the same needs) and type (some employers had more complex, or more sensitive, needs than others). Small employers with around 20+ workers often had the infrastructure in place to deal with issues as they came up, with specialist finance and Human Resources (HR) staff, and the accountant taking the role of specialist adviser. Some small and micro employers were more comfortable with financial and technical matters than others and would do more of their sourcing themselves. However, when it came to fiduciary, contractual or other legal information, not least requirements to comply with changes in the law, these formal sources of information would almost invariably be invoked.

Offering a pension

When deciding whether or not to offer pensions to staff, small and micro employers were influenced by their belief systems and their underlying attitudes to the role of the employer, the responsibilities of the individual, the impact pensions might or might not have on their business, and the economic and legal environment. The way they received information and their personal experiences also informed their decision.

Those who offered pensions were motivated by both the interests of their businesses and the view that it was right thing to do in any case. A pension was one element of the total package which they could offer to maintain morale, retain staff, and help to attract new staff. This was underpinned by their belief that pensions were necessary, that the State Pension on its own was inadequate, and that small employers had a social responsibility towards their workers. The background to such belief systems was influenced by their experience and

upbringing, their previous employers' attitudes towards pensions and saving, and the impact which pensions had on other companies and their staff.

Small and micro employers' reasons for not offering a pension, focused on their perceptions of how their workers felt, as well as their own personal attitudes. Their perceptions of expectations were important. They felt that workers generally had little expectation that employers would offer a pension. They had not generally taken it up when it had been offered, and employers had rarely been asked for it. This partly reflected the demographic profile of their staff: young, low paid or transient staff did not relate to pension provision, particularly in traditional working areas. Employers felt that staff knew little about pension schemes and what they did know was often not favourable after a continuing 'bad press'.

Small and micro employers who either perceived or reported low interest among their staff tended themselves to have a negative attitude towards pensions. The over-arching issues which were important to employers in running their businesses underpinned their attitudes towards pensions. They were concerned with costs, regulation, and administration – they did not see pension provision as relevant to the core objectives of their business, as it was the responsibility of the individuals concerned. And employers shared the scepticism about pensions that they ascribed to their workers. They felt that there were more reliable, better value, ways of rewarding staff, not least through their pay packet.

How small and micro employers communicate with their workers

Small and micro employers primarily communicated with their staff informally. They felt no need to do otherwise – everyone knew each other and formality implied spending time and money on communications which ran counter to employers' instincts. This applied across all sectors and sizes of businesses, although the degree of the informality would reflect the practicalities of the business – a staff

meeting for larger organisations, one-to-one meetings for smaller organisations or where staff were dispersed. Formal communications were limited to contractual or legal issues – contracts of employment (and staff handbooks for larger businesses) and notifications about rights or new or changing legislation, which would be circulated to staff.

Small and micro employers were not generally proactive in communicating with their staff about pension schemes. They passed information to staff but they would stop short of giving advice. Information about pensions, in other words, would generally be treated by employers in the same way as other forms of information. This did not mean that employers were neutral about pensions. As already discussed, some were in favour, while others (more) were sceptical of their value. But the key issue for employers was that they had no place in informing, and certainly advising, staff beyond what they are legally required to do. They did not have the skills, it was not a core function of the business, and it was not necessarily in the best interests of the staff. Rather, if staff wanted more information or advice, the employer would just pass them on to someone registered to deal with this – a pension provider or an independent financial adviser.

Preparations for the forthcoming workplace pension reforms

Levels of awareness of the workplace pension reforms varied among small employers – although there was no clear pattern by business type. Some were simply unaware of any forthcoming changes in legislation and others could only vaguely recall specific details of the reforms. At the time of the research, very little communication had taken place on the reforms.

Small and micro employers cited their usual sources of information such as accountants for hearing about the reforms. And they expected that information on the reforms would be available to them through their normal channels. They believed that such a major piece of legislation would attract a great deal of

media attention. Indeed, they thought national and regional TV and radio to be a particularly effective way of communicating about the reforms to workers.

Media coverage may in turn prompt small employers to speak to accountants (as discussed earlier the most important source of information), as well as informal networks of local employers, customers, suppliers, family and friends. In addition, it was believed that government communication on the reforms may be too technical for some small employers to understand, so accountants would be best placed to provide 'simpler' or 'more straightforward' information and advice.

Small and micro employers also expected that they would receive a letter from the relevant government department, given that the legislation is directly affecting their business and has implications for their staff. Employers wanted this letter written in plain English with no jargon and laid out in a visually accessible format. This would help them clearly understand the reasons for the reforms and what actions they needed to take.

Small and micro employers felt that it was important to have sufficient advance notice of the changes to pension legislation to take the required actions to make sure they comply. Indeed, more action was generally needed given the low employer awareness and small employers would welcome this sooner rather than later.

Conclusions and recommendations

There are a number of recommendations that suggest how the Department might communicate information about the forthcoming workplace pension reforms. It will be important for future communications campaigns to deal with perceived issues around the demand for pensions. Small and micro employers sometimes mentioned how they did not believe that their workers wanted to participate in an

employer-run pension scheme and, therefore, this absolved them from providing one. Consequently, it will be necessary to address this by linking the benefits of pension provision with what matters to employers (their business success) as well as wider current debates which resonate with the public such as the future of care and support for the elderly. In addition, it will also be helpful to utilise a wide range of channels recognising the importance of accountants as a useful and trusted source of information. In any communications, it is worth noting that on the whole, small and micro employers want to comply with government legislation. The tone of information should therefore aim to strike a balance between being clear on the new legal requirements and understanding the perspective of employers.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 795 2. Research Report 676. July 2010).

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