Likely treatment of different types of worker under the workplace pension reforms: Qualitative research with employers

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Background

The Pensions Act 2008 sets out a series of measures aimed at encouraging wider participation in private pension saving. The aims of these reforms are to overcome the decision-making inertia that currently characterises many individuals' attitudes to pension saving and to make it easier for people to save for their retirement.

The measures in the act include a duty on employers to automatically enrol all eligible workers into qualifying workplace pension provision from 2012 and to provide a minimum contribution towards the pension saving for those individuals who participate. The details of how the changes will be enacted were set out in regulations that were laid in January 2010.

The full impact of the requirements on workers' pension savings will be influenced to a great extent by the behaviour of employers, particularly in terms of which types of worker they enrol into which schemes, and how they choose to approach existing pension benefits offered to staff. This research study was designed to consult with employers across all sizes and industry sectors about their likely treatment of different types of worker in response to the requirements introduced by the workplace pension reforms. The research will be used to inform the development and implementation of the reforms.

Key findings

- Employers who currently offer no pension provision or provision with less than three per cent contribution typically felt they would enrol all employees into a single scheme and contribute the minimum three per cent required under the reforms; and employers who currently offer contributions of more than three per cent typically expect to maintain any contributions greater than three per cent.
- Employers often do not offer pension provision to non-permanent workers currently as they feel high staff turnover among these workers makes any pension administration burdensome.
- Employers stated that any staff currently receiving no contribution or a contribution of under three per cent would only be brought up to the minimum three per cent as required in the reforms, under the current design. This typically applied to staff within a probationary period, lower-paid staff and non-permanent and seasonal workers, including freelance staff.
- The employers interviewed felt that NEST (National Employment Savings Trust)[1] would be most appropriate for their junior, or lower-paid staff, or those that were only likely to stay at the company for a short period of time.

Scope of the research

The study was qualitative in nature, and consisted of individual depth interviews with 62 private sector employers, each lasting one

[1] NEST was known as personal accounts at the time of the fieldwork.

hour. They took place across a range of sizes of employer, industry sector and geographic location throughout Great Britain, including employers with a range of different levels of employee pension provision.

Interviews were conducted from early October to mid-November 2009 with the senior individual within each company best placed to discuss pension provision for employees.

Employers currently offering no scheme at all

The smallest companies in the study, of one to four employees, did not typically have any workplace pension provision in place. They did not generally believe that their employees would value a workplace pension, as they were often lower paid, non-permanent or seasonal, or had their own personal pension arrangements.

Most of these employers said that after the implementation of the reforms they were likely to choose one single qualifying workplace pension scheme in which to enrol all of their eligible employees. As these employers generally had few employees, they felt that the additional time needed to select and administer multiple schemes would outweigh any potential benefits for employees.

Many said that they would be likely to consider enrolling employees into NEST, particularly those in industries with a high staff turnover such as retail and catering, They felt that they would be looking for a simple, low-cost solution to pension provision, and viewed these workers to be the target at which NEST is aimed.

In most cases these employers expected to pay the minimum three per cent employer contribution required under the reforms to all staff, and no more, believing that employer contributions of more than three per cent would be unaffordable.

Employers currently offering all staff a single scheme with no contribution

Some of the employers with more than four employees offered a non-contributory stakeholder to all employees, which was the minimum they were currently required to offer by law. In these cases, take-up tended to be low or was non-existent. These employers tended to be in industries that generally paid low wages. Often they had a relatively high turnover of staff, or the nature of the work was seasonal or non-permanent.

After the reforms they typically expected to enrol newly-eligible employees into the existing pension scheme, rather than set up a new one. These schemes had already been set up and so the employers were familiar with the administration surrounding them. They typically expected only to be able to offer this group of employees the minimum contribution of three per cent, in order to comply with the requirements, while minimising their contribution costs.

Although most stated that they would prefer to use or adapt their current scheme, occasionally employers did say that they would consider NEST if this approach was not feasible, or if they were advised to do so.

Employers currently offering all staff a single scheme with a contribution

Some employers offered a single scheme with an employer contribution, usually of three per cent or more, and usually with the requirement that the employee also contribute. Typically this was a group personal pension (GPP), though many offered an occupational defined contribution (DC) scheme or a stakeholder. Although all employees were enrolled into a single scheme, they did not necessarily all receive the same level of employer contribution: this often varied according to seniority, length of service, location, age (under 18 vs. over 18) and whether the employee was permanent or non-permanent.

Employers that offered a GPP, occupational DC or stakeholder with a contribution to all staff typically expected to continue these arrangements after the implementation of the reforms. Most of these employers believed their existing schemes were operating well, and wanted to avoid unnecessary change. Employers felt that they had experience in how to run their current schemes, confidence in the processes involved, and had often established positive relationships with their existing providers.

Employers that were offering contributions of three per cent or higher saw their schemes as generous and a real benefit to their employees. They therefore often believed that it was in the interest of the employees that would become eligible for a pension scheme under the reforms to join these existing schemes. These employers saw little reason to go through the effort of changing the scheme used by staff: the cost and time associated with switching simply gave them little incentive to set up a new scheme.

Employers currently offering multiple schemes: one with and one without an employer contribution

Some employers had more than one type of scheme in place: they offered most employees a non-contributory stakeholder, but offered a proportion of the staff a GPP, occupational DC or stakeholder with an employer contribution. The scheme offering a contribution tended to be restricted to more senior employees, such as branch managers of a retail store as opposed to other branch employees.

These employers typically expected to keep the contributory scheme after the reforms; but some suggested that they might set up a completely new scheme for the staff that currently received no contribution. This was particularly the case for employers that faced a significant proportion of their current workforce becoming eligible for contributions at the same time. Employees in this group tended to be lower-paid workers, shorter-term staff or those who had recently joined their company. These employers often felt that staff benefits such as a high pension contribution were an employee incentive, and had to be earned via performance or tenure, and they were less willing to enrol these employees into existing schemes that were currently reserved for more senior staff.

Although employers were typically unsure which new scheme they might use for these employees, ease of administration was typically a major consideration, as large numbers of employees would need to be enrolled at once, and NEST was seen to offer a simple, low-cost solution for those on lower wages. They also felt that NEST could be an appropriate choice for staff that were likely only to stay at the company for a relatively short period of time, as the scheme was often perceived to be easy to administer for the employer, and a portable option for the employee. Although they were likely to consider NEST for these lower-paid or short-term staff, there was no indication that they would use the scheme for those on higher incomes. NEST is being set up to make low cost pension provision available to low to median earners, which appears to fit with how these employers viewed the scheme.

Employers currently offering multiple schemes with an employer contribution

Employers with multiple pension schemes tended to fall into two broad groups. Some had defined benefit (DB) schemes for longer-serving employees that were now closed to new members. In these cases, the remaining staff were enrolled into an occupational DC, GPP or, very rarely, a stakeholder pension, typically with an employer contribution. In addition, there was a minority of larger employers that offered different DC pension schemes to different staff for a variety of reasons, such as previous company mergers, or a decision to change pension providers in the past.

The employers with closed DB schemes did not suggest that they would change these arrangements for current members. However, some employers who had multiple DC schemes in place said they might give consideration to simplifying or consolidating their various DC pension schemes into one single approach. This was to reduce the administration they currently faced when using multiple pension providers. Some employers noted that this would not solely be a response to the reforms, but to a more general issue that needed to be addressed in order to create a more coherent pensions offering with one, more streamlined approach. However, the reforms were often expected to act as the catalyst for this change.

The level of employer contributions under the reforms

The following staff were likely to receive less than three per cent employer contribution currently and were therefore seen as most likely to receive the minimum three per cent employer contribution required under the reforms:

- Staff within a probationary period: Employers often did not wish to offer higher contributions to probationary staff because the company and the employee had yet to determine mutual suitability for the role.
- Lower-paid staff: Employers often justified not offering higher contributions to this group on the basis of cost: these lower-paid staff often formed a significant proportion of the overall workforce, and the company could not afford to make higher contributions on such a large scale.
- Non-permanent and seasonal workers, including freelance staff: Many employers felt it would not be good business practice to offer non-permanent or seasonal staff higher employer contributions because there had been no commitment from them to continued employment. In some cases, this also applied to non-UK nationals working in the UK on a short-term basis.

For those workers who currently receive more than three per cent employer contribution into their pension, most employers agreed they would not ideally want to 'level down' contributions: in other words, reduce the level of pension contribution currently paid to members receiving more than the minimum three per cent, in order to offset the minimum contribution costs from new members.

Some employers stated they would only do this if it was prompted by a real financial need. The most likely circumstance where it was perceived this could arise was if most of the newly-eligible staff were to join the pension scheme, with very few choosing to opt out. In this case, some employers feared they might not be able to afford the increase in contributions.

Many employers, however, expected to maintain current contribution levels for staff in existing schemes, whatever the level of opt-out, even despite any increase in membership. This was primarily because:

- Reducing current contribution levels would have a negative effect on staff morale.
- They would be taking existing benefits away, which might constitute a breach of the employee contract.
- It might also suggest that the company is not performing well financially.
- Maintaining levels of contribution over three per cent, where offered, might not only help to retain staff but also attract new recruits.

Many employers were reluctant to even consider which groups of staff would face levelling down, if it were to happen. Rather than reducing pension contributions to current members some employers did point out that lowering contributions paid to new joiners might be a less problematic approach, as this would not mean any changes to contract terms for existing employees (this is not strictly classified as levelling-down, although as new staff replace old staff the effect will be similar).

Some employers who currently offered tiered employer contributions depending on employee seniority suggested that more junior staff receiving lower employer contributions may continue to receive these lower percentages, even when they reached a more senior level. This meant that although contributions for these employees would not increase with seniority, they would not be taking away any contributions already received.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 780 8. Research Report 662. June 2010).

You can download the full report free from: http://research.dwp.gov.uk/asd/asd5/rrs-index.asp

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