



Department  
for Work &  
Pensions



# Automatic enrolment: Qualitative research with small and micro employers

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October 2017

Research Report No 949

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# Summary

Legislative changes set out in the Pensions Acts 2007, 2008 (and updated as part of the Pensions Act 2011 and 2014) aim to increase private pension saving in the UK and reverse a long-term decline in pension participation rates. The reforms require employers to automatically enrol eligible workers into a qualifying workplace pension scheme and to make a minimum contribution. These employer duties are being introduced between October 2012 and February 2018, by which point all employers will have reached their staging date.

In conjunction with the new automatic enrolment measures, the Department for Work and Pensions (DWP) commissioned the first automatic enrolment research study in 2012 with large employers,<sup>1</sup> and subsequently a second study in 2014 with medium-sized employers.<sup>2</sup> The research detailed in this report is the third study, commissioned in 2016 and focusing on small and micro employers.

The research team carried out face-to-face interviews with 70 employers who had completed automatic enrolment and 65 workers between October 2016 and February 2017, in order to collect qualitative information on their attitudes and experiences of the automatic enrolment process.

## Key findings

- Employers typically felt that automatic enrolment is a necessary and sensible policy, and that it was something they just had to ‘get on with’. Some, however, felt that the financial and time burden involved made automatic enrolment problematic for very small companies to implement.
- Employers, like workers, felt the state’s role in providing for workers’ retirement must inevitably lessen, and most saw automatic enrolment as a sensible way to fill the gap in retirement income that this will leave.
- When they actually had to start planning and implementing automatic enrolment, most employers found the cost and time burden involved to be lower than they had anticipated. As a result, we encountered very few small or micro employers who described issues with complying with their duties on time.
- When seeking information regarding automatic enrolment and their own duties, employers usually relied heavily on The Pensions Regulator’s website, especially when first finding out about automatic enrolment. Once they had decided upon a provider, that provider’s website became the preferred information source for many.
- Employers who already used an intermediary (for example an independent financial adviser, payroll, or accountant) tended to go to them for limited ‘free’ advice. Far fewer employers chose to employ an intermediary on an ad hoc basis to help them fulfil their automatic enrolment duties.

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<sup>1</sup> Wood, A., Downer, D., Körbitz, C. and Amantani, L. (2013). *Automatic enrolment: Qualitative research with large employers*.

<sup>2</sup> Wood, A., Downer, D., Amantani, L. and Gooders, C. (2015). *Automatic enrolment: Qualitative research with employers staging in 2014*.

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- Most employers communicated automatic enrolment to their workers verbally and in informal contexts within the workplace, before distributing the statutory letters.
- Employers were generally aware of the planned increases in the minimum contribution rate (phasing), and for those who were not, our explaining the policy to them did not cause much surprise or concern. Some expected to cover the additional costs associated with phasing from future wage increases. Some also expressed paternalistic concerns that their workers may opt out of after phasing.
- Workers who remained in the workplace scheme after being automatically enrolled tended to accept that pensions are the responsibility of the individual, alongside that of their employer. Workers who opted out tended to be at the extremes of provision: either they felt they simply could not afford to save anything, or they had other pension provision that they already felt confident would provide the level of retirement income they needed.
- Workers largely found out about automatic enrolment through the media and their employer: few sought out other written information. Where workers remained in a scheme after being automatically enrolled, their choice (if they made a choice at all) was usually quick and instinctive. In contrast, the decision to opt out tended to require more active thought, although those who opted out were typically much firmer and more confident in their choice than those who remained in.
- Workers who remained members of the scheme following automatic enrolment appeared to be relatively relaxed about the first stage of phasing (the increase from one to three per cent worker contribution), having seen that the impact to date on their take-home pay had been low. A few were concerned about the rise to five per cent, particularly where this was exacerbated by other aspects of uncertainty in their lives, e.g. possible house purchases or potential salary increases. Workers who opted out tended not to be concerned about phasing, either because it made schemes even less affordable for them, or because they felt the increase would not deliver significantly better returns than the scheme had before phasing.

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# List of abbreviations

<b>BIS</b>	Department of Business, Innovation and Skills (since merged into the Department for Business, Energy and Industrial Strategy)
<b>DWP</b>	Department for Work and Pensions
<b>FSB</b>	Federation of Small Businesses
<b>HMRC</b>	HM Revenue and Customs
<b>IFA</b>	Independent Financial Adviser
<b>NEST</b>	National Employment Savings Trust
<b>ONS</b>	Office for National Statistics
<b>PAYE</b>	Pay As You Earn
<b>SERPS</b>	State Earnings Related Pension Scheme
<b>SME</b>	Small and micro employers
<b>SPa</b>	State Pension age
<b>TPR</b>	The Pensions Regulator (also referred to as ‘the regulator’)
<b>VAT</b>	Value Added Tax

# Glossary of terms

<b>Active member</b>	A <b>member</b> who is currently accruing benefits in a pension scheme.
<b>Automatic enrolment</b>	Pension scheme enrolment legislation under which an employer enrolls eligible jobholders into the <b>workplace pension</b> scheme ‘automatically’ – i.e. without the jobholder having actively to agree to membership. Individuals who are automatically enrolled are free to <b>opt out</b> or <b>cease active membership</b> at any time, but need to take action to do so.
<b>Automatic enrolment scheme</b>	A <b>qualifying scheme</b> that meets additional criteria to be an <b>automatic enrolment</b> scheme. <b>Eligible jobholders</b> who are not already a member of a qualifying scheme on the employer’s <b>staging date</b> must be automatically enrolled into an automatic enrolment scheme.
<b>Ceasing active membership</b>	In the context of this report, if an eligible jobholder chooses to leave (or stop contributing to) an <b>automatic enrolment scheme</b> after the end of the <b>opt-out period</b> , they are said to cease active membership.
<b>Contribution levels</b>	As required by law, <b>defined contribution</b> schemes have minimum contribution levels. Until 5 April 2018, the total minimum contribution required by law is two per cent of the worker’s salary, including a minimum employer contribution of one per cent.
<b>Defined contribution (DC) pension</b>	A pension scheme that provides pension scheme benefits based on the contributions invested, and the returns received on that investment (minus any charges incurred).
<b>Earnings trigger for automatic enrolment</b>	The amount a <b>worker</b> must earn before the duty for their employer to <b>automatically enrol</b> the worker is triggered. For the 2017/2018 tax year, this is set at £10,000. This figure is reviewed annually by the Government.
<b>Eligible jobholder</b>	Eligible jobholders for <b>automatic enrolment</b> are those who are aged at least 22, but have not yet reached <b>State Pension age</b> , and earn above the <b>earnings trigger for automatic enrolment</b> . They must also not already be members of a qualifying scheme and ordinarily work in the UK.

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<b>Entitled worker</b>	A <b>worker</b> who is aged at least 16 and under 75; works, or ordinarily works, in the UK; and earns below the lower earnings level of <b>qualifying earnings</b> (£5,876 for the 2017/2018 tax year). Entitled workers are not eligible for <b>automatic enrolment</b> , although they can choose to join a <b>workplace pension</b> . Their employer is not required to make a contribution if they do so.
<b>Independent Financial Adviser</b>	An adviser, or firm of advisers, that is in a position to review all the available products and companies in the market as the basis for recommendations to clients. All Independent Financial Advisers (IFAs) are regulated by the Financial Conduct Authority.
<b>Jobholder</b>	A <b>worker</b> who is aged at least 16 and under 75; works, or ordinarily works in the UK; and earns above the lower earnings level for qualifying earnings. The category of jobholder is divided further into two groups: <b>eligible jobholders</b> and <b>non-eligible jobholders</b> .
<b>Joining window</b>	The six-week period from an <b>eligible jobholder's automatic enrolment</b> date. Within this period the employer must give information to the pension scheme about the eligible jobholder; give enrolment information to the eligible jobholder; and make arrangements to achieve <b>active membership</b> for the eligible jobholder, effective from their automatic enrolment date.
<b>Member</b>	A person who has joined a pension scheme and who is entitled to benefits under it.
<b>NEST</b>	The National Employment Savings Trust. A multi-employer <b>workplace pension</b> established by legislation. NEST has a public service obligation to accept any employer who chooses to use it.
<b>Non-eligible jobholder</b>	Non-eligible jobholders are not eligible for automatic enrolment, although they can choose to 'opt in' to an <b>automatic enrolment scheme</b> . If they do, their employer must still make a contribution. They are <b>jobholders</b> who: are aged at least 16 and under 75; and earn above the lower earnings level of <b>qualifying earnings</b> but below the <b>earnings trigger for automatic enrolment</b> . Or, are aged at least 16 but under 22, or between <b>State Pension age</b> and under 75; and earn above the <b>earnings trigger for automatic enrolment</b> .
<b>Opt in</b>	<b>Eligible jobholders</b> can choose to opt in to the pension scheme nominated by the employer for <b>automatic enrolment</b> during the <b>postponement</b> period, where applicable. <b>Non-eligible jobholders</b> have the right to do the same at any time.

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<b>Opt out</b>	Where a jobholder has been <b>automatically enrolled</b> , they can choose to 'opt out' of a pension scheme. This has the effect of undoing <b>active membership</b> , as if the <b>worker</b> had never been a <b>member</b> of a scheme on that occasion. It can only happen within a specific time period, known as the ' <b>opt-out period</b> '.
<b>Opt-out period</b>	A <b>jobholder</b> who becomes an <b>active member</b> of a pension scheme under the <b>automatic enrolment</b> provisions has a period of time during which they can <b>opt out</b> . If a jobholder wants to opt out, they must do so within one month, from and including the first day of the opt-out period. The opt-out period begins one month after the worker has both become an active member and been provided with written confirmation of this.
<b>PAYE</b>	PAYE (Pay As You Earn) is the system that HM Revenue and Customs (HMRC) uses to collect Income Tax and National Insurance contributions from employees. They are deducted throughout the tax year based on the employees' earnings and then paid to HMRC.
<b>Personal pension</b>	A pension that is provided through a contract between an individual and a <b>pension provider</b> . The term generally comprises personal pensions, which are arranged by individual employees, and group personal pensions, access to which is facilitated by an employer.
<b>Phasing</b>	For <b>defined contribution</b> schemes, the gradual phasing-in of contribution levels until they reach the minimum level required by law. Until 5 April 2018, the automatic enrolment minimum contribution rate is two per cent of the worker's <b>qualifying earnings</b> , of which the employer must contribute at least one per cent, and 0.2 per cent comes from the state in tax relief. From 6 April 2018, the minimum contribution will rise to five per cent, of which the employer must contribute at least two per cent and the state contributes 0.6 per cent in tax relief. The minimum contribution will rise again in April 2019 to a total of eight per cent, of which the employer must contribute at least three per cent and the state contributes one per cent through tax relief.
<b>Postponement</b>	Postponement is an additional flexibility for an employer that allows them to choose to postpone <b>automatic enrolment</b> for a period of their choice of up to three months. Postponement can only be used for a worker on the employer's <b>staging date</b> ; the first day of worker's employment; or on the date a worker employed by them meets the criteria to be an <b>eligible jobholder</b> .

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<b>Provider</b>	An organisation, usually a bank, life assurance company or building society, which sets up and administers a pension scheme on behalf of an individual or trust.
<b>Qualifying earnings</b>	In the context of the <b>workplace pension reforms</b> this refers to the part of an individuals' earnings on which contributions into a <b>qualifying pension scheme</b> will be made. A worker's earnings below the lower level and above the upper level are not taken into account when working out pension contributions. For the 2017/2018 tax year, the lower level is set at £5,876 and the upper level is set at £45,000. These figures are reviewed annually by the Government.
<b>Qualifying pension scheme</b>	A pension scheme that meets certain minimum standards set by legislation. There are different standards, depending on the type of scheme.
<b>Registration</b>	A duty on employers to tell the regulator information about the pension scheme they are using and how many people they have enrolled into it for automatic enrolment.
<b>Staging</b>	The staggered introduction of the new employer duties, from 2012, starting with the largest employers, based on <b>PAYE</b> scheme size, in October 2012, to the smallest in 2017. New <b>PAYE</b> schemes from April 2012 will be staged in last, in 2017 and 2018.
<b>Staging date</b>	The date on which an employer is required to begin <b>automatic enrolment</b> . It is determined by the total number of workers in an employer's largest <b>PAYE</b> scheme.
<b>State Pension age</b>	The State Pension is currently paid to men who reach the State Pension age of 65. For women, the State Pension age is increasing from 60 to 65 between 2010 and 2018.
<b>The Pensions Regulator</b>	The Pensions Regulator (TPR), referred to in this report as 'the regulator,' is the UK regulator of work-based pension schemes. The regulator is responsible for ensuring employers are aware of their duties relating to <b>automatic enrolment</b> and how to comply with them. It uses a programme of targeted communications and a range of information to help employers understand what they need to do, and by when.
<b>Worker</b>	An employee, or a person who has a contract to provide work or services personally and is not undertaking the work as part of their own business.

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### **Workplace pension**

Any pension scheme provided as part of an arrangement made for the employees of a particular employer.

### **Workplace pension reforms**

The reforms introduced as part of the Pensions Act 2008 (and updated as part of the Pensions Act 2011): the measures include a duty on employers, starting in 2012 and on a rolling-programme basis, to **automatically enrol** all eligible jobholders into an **automatic enrolment pension scheme**.

# Executive summary

This report provides the findings from a study commissioned by the Department for Work and Pensions (DWP), to explore small and micro employers' and workers' experiences of automatic enrolment.

## Background

The workplace pension reforms require employers to automatically enrol all eligible workers aged between 22 and State Pension age (SPa) into a qualifying workplace pension scheme. Workers have the option to leave the scheme ('opt out') within the month-long 'opt-out period' that follows their enrolment.

Once they have enrolled eligible workers into a workplace scheme, employers must make a contribution to those workers' pension savings. The minimum contribution levels for all automatic enrolment schemes are being phased in. Until 5 April 2018, the minimum contribution rate must total two per cent of the qualifying earnings of each worker who is automatically enrolled, with at least one per cent provided by the employer.

In conjunction with the new automatic enrolment measures, DWP commissioned the first automatic enrolment research study in 2012 with large employers,<sup>3</sup> and subsequently a second study in 2014 with medium-sized employers.<sup>4</sup> The research detailed in this report is the third study, commissioned in 2016 and focusing on small and micro employers.

## Scope of the research

The research consisted of three strands:

- Qualitative depth interviews with 70 employers, conducted with at least one person who had been involved in the implementation of automatic enrolment.
- Administrative data provided by these employers, including details of any pension arrangements offered prior to automatic enrolment, and details of the numbers and types of workers who opted out after being automatically enrolled.
- Qualitative depth interviews with 40 workers who had remained in employers' schemes after being automatically enrolled, and 25 workers who had chosen to opt out of these employers' schemes after being automatically enrolled. Of these 65 workers, 59 were identified through the employers that we interviewed, typically with one or two workers selected at random by the employer and interviewed by the research team in private at the place of work. Because of the limited number of opt-outs across the employers we interviewed, the remaining six workers had to be recruited independently of any employer.

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<sup>3</sup> Wood *et al.* (2013).

<sup>4</sup> Wood *et al.* (2015).



## Key findings

### Employers' and workers' views on the role of the state in providing for retirement

Employers and workers alike tended to think that the state's role in providing for workers' retirement must inevitably lessen in the coming years, because it 'could not' cope with the demands an ageing population would place on it. This view was prevalent among employers, with almost all accepting they needed to take a certain level of responsibility for their workers' pensions. This view was slightly less prevalent among workers, but still represented the most common perspective. Workers on the lowest incomes tended to feel more strongly that the state should still have a role in providing a retirement income. This attitude was often rooted in their own sentiment of having paid National Insurance contributions throughout their working lives, in the belief that a State Pension would provide all or most of the retirement income they needed in the future. The attitudes of employers and workers towards automatic enrolment, and retirement and pensions more generally, is explored in Chapter 2.

### Employers' attitudes towards automatic enrolment

Because almost all employers tended to take a pragmatic view about the limits of state pensions, they also tended to see automatic enrolment as a necessary and sensible way to meet a future shortfall in retirement income. Typically, they perceived it as something they just had to 'get on with'.

A few employers, however, felt that the financial and time burden involved in implementation made automatic enrolment problematic for very small companies. These employers tended still to be in favour of the policy, but felt there should be a cut-off in company size, with the very smallest employers exempt from automatic enrolment duties. These attitudes are further explored in Chapter 2.

### Employers' experiences of planning and implementing automatic enrolment

When they actually had to start planning and implementing automatic enrolment, most employers found the cost and time burden involved to be lower than they had anticipated. Many had anticipated spending weeks of their time and as much as £3,000 in associated costs. In reality, employers were pleased that implementation typically took two to three days across about six months, and cost no more than £500, a figure consistent with data from The Pensions Regulator (TPR).<sup>5</sup> As a consequence, the research team encountered very few small or micro employers who experienced issues in complying on time.

Most employers communicated automatic enrolment to their workers verbally and in informal contexts within the workplace, before distributing statutory letters. Employers at many small and micro employers described this as feeling 'natural' at companies where all or most of the workforce are based at a single site, sit together and often eat lunch together. Experiences of implementing automatic enrolment are explored in Chapter 3.

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<sup>5</sup> Further information is available on TPR's website, at <http://www.thepensionsregulator.gov.uk/working-out-your-clients-costs.aspx>

### **Employers' use of information and advice in regard to automatic enrolment**

When seeking information regarding automatic enrolment and their own duties, employers usually relied heavily on TPR's website, especially when first finding out about automatic enrolment. Once they had decided on a provider, that provider's website often became their preferred information source.

Employers who already used an intermediary – for example, an independent financial adviser (IFA), payroll provider, or accountant – tended to go to them for limited 'free' advice. Far fewer employers chose to employ an intermediary on an ad hoc basis to help them fulfil their automatic enrolment duties. The use of information and advice is further explored in Chapter 3.

### **Workers' rationales for remaining enrolled and opting out**

Workers who remained enrolled did not typically spend excessive time considering the issue – indeed some spent almost no time. Typically, these were workers who felt they could probably afford the contributions that automatic enrolment would entail, and who also acknowledged that automatic enrolment was a good idea, at least in principle. As a result, they chose the path of least resistance, which was to remain enrolled.

Workers who opted out tended to give the decision much more thought, and were far firmer in their choice than those who remained members. This was not simply because they actually had to take an action in order to opt out; they also tended to be at the extremes in terms of retirement provision. These workers were typically either those expecting a low-income retirement who felt they simply could not afford to save anything; or they expected a very comfortable retirement, using other pension provision that they were confident would provide for them. The attitudes and experiences of workers are explored in detail in Chapter 4.

### **Opt-out rates**

In this study of automatic enrolment, the number of workers who remained in the scheme after being automatically enrolled, whether through conscious choice or inertia, vastly outstripped the number electing to opt out. However, this was a qualitative study and the sample was not large enough to draw any statistically legitimate conclusions. In addition, because the employers in this study were far smaller than those who participated in previous studies, it would be misleading to quote a single 'opt-out rate' aggregated across all the employers. This said, the findings here, and our experiences during recruitment, suggest that opt-out rates among eligible employees who work for small and micro employers are likely to be found to be low, when further research is undertaken to quantify the extent of opt-out among them. Given the more personal, face-to-face approach to informing workers about automatic enrolment taken by small and micro employers staging in 2016, it would be useful to test empirically any relationship between this approach and a lower opt-out rate.

Among the 70 employers who participated in this piece of research, 58 had no workers who had opted out at all. Of the 12 employers who did have workers who opted out, nine had just one opt-out, and three had two opt-outs. In this very small sample, those who opted out:

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- were just as likely to be male as female;
- were found across all industries, employer sizes and regions, with no noticeable concentrations; and
- were split roughly evenly between full-time and part-time workers.

However, there were differences when it came to age, with older workers more likely than younger workers to opt out.<sup>6</sup> This was especially true of older workers with other pension provision or investments: typically these workers believed there would be little point in creating new provision when they were already nearing retirement.

### Employers' and workers' reactions to phasing

Employers were generally aware of the planned increases in the minimum contribution rate, known as phasing, and those who were not did not typically feel surprised or concerned to hear about it. Many suggested they would be able to cope with phasing because they had known about it far in advance and could therefore plan for it. Some employers expected to cover the additional costs associated with phasing by reducing future wage increases. Some had paternalistic concerns that their workers may opt out after phasing. These arose out of the genuine sense of closeness to workers that employers in small and micro companies described feeling.

Workers who remained enrolled appeared relatively relaxed about the first stage of phasing (the increase from one to three per cent worker contribution), having seen that the impact on their take-home pay has been low so far. A few were concerned about the rise to five per cent, particularly where this was exacerbated by other uncertainties in their lives, such as the cost of possible house purchases or potential salary increases.

Workers who had opted out tended not to change their mind about remaining so when they discussed phasing, either because the higher contributions made schemes appear even less affordable for them, or because they felt the increased level of contributions would not deliver significantly better returns.

### Advice to other employers

Employers often described their initial apprehension about implementing automatic enrolment, expecting it to be an onerous task. Typically however, they were keen to convey to other small employers that the process had not been as difficult or time-consuming as they had anticipated.

Even so, the employers we spoke to advised others to start their preparations early. In particular, they felt that gaining an understanding of the legislation and its requirements well in advance of the staging date was imperative.

Finally, many employers recognised the benefits of being in a small company in terms of being able to talk openly to their employees about automatic enrolment in an informal way, and so were keen to point out this benefit to other small employers.

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<sup>6</sup> This is consistent with findings from DWP's previous qualitative research with larger employers. See Wood *et al.* (2013) and Wood *et al.* (2015).

# 1 Introduction

This report presents the findings from a qualitative research study commissioned by the Department for Work and Pensions (DWP) that has explored the experiences of small and micro employers implementing automatic enrolment during 2016, and of workers at those organisations. Its specific objectives have included understanding the attitudes and motivations behind opt-out rates, the experiences and burden on employers of implementing automatic enrolment, and the potential impact of the planned increases in the minimum contribution rate (phasing).

This chapter introduces the study's background and the objectives of the research, as well as describing the methodological approach taken. Section 1.1 describes the policy background to automatic enrolment, including the legislative changes set out in the Pensions Acts of 2007 and 2008. Section 1.2 outlines the research objectives and the specific ways in which this research sought to understand the perspectives of both employers and workers, before Section 1.3 outlines the policy objectives in terms of the need to change retirement savings behaviour. Section 1.4 explains the methodology in detail, including the sampling approach, initial contact with employers, and opt-out data. Section 1.5 and 1.6 set out the profiles of employers and workers included in the study, respectively. Finally, Section 1.7 summarises the findings from the evidence review carried out as the initial stage of this research, in order to provide further context for the study.

## 1.1 Policy background

The legislative changes set out in the Pensions Acts 2007, 2008 (and updated as part of the Pensions Act 2011 and 2014), and the packages of associated regulations, aim to increase private pension saving in the UK and reverse a long-term decline in pension participation. They form part of a wider set of pension reforms designed to ensure that the UK has a pension system that enables individuals to save towards achieving the lifestyle they aspire to in retirement, while minimising the burden on employers and industry.

The reforms require employers to automatically enrol eligible workers into a qualifying workplace pension scheme and make a minimum contribution. Workers who do not wish to be a member of the workplace scheme can opt out within one month of being automatically enrolled, or cease active membership of the scheme at any time thereafter. Automatic enrolment duties are being introduced between October 2012 and February 2018 by employer size, starting with the largest employers. Employers are allocated a 'staging date' by The Pensions Regulator (TPR): a date on which employer's automatic enrolment duties come into effect.

Until 5 April 2018, the minimum contribution rate must equal two per cent of the qualifying earnings of each worker enrolled,<sup>7</sup> with at least one per cent coming from the employer, and the remainder made up by the worker's contributions and tax relief. From 6 April 2018, the minimum contribution will increase in two stages until it reaches a total of eight per cent from 6 April 2019, of which at least three per cent will come from the employer's contribution.

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<sup>7</sup> Qualifying earnings are the part of an individuals' earnings on which contributions into a qualifying pension scheme are made. The level is reviewed annually by the Government.

Almost four years after the first employers began to automatically enrol workers, the number of employers who reach their staging date has grown from a handful to tens of thousands every month. The total number of workers who have been automatically enrolled into a workplace pension scheme passed 7.7 million in April 2017, across over 540,000 employers, and the figures continue to increase.<sup>8</sup> Once fully implemented in 2018, DWP estimates that around ten million workers will be newly saving or saving more into a workplace pension as a result of automatic enrolment, and the annual saving in workplace pensions will increase by £17 billion by 2019/20.<sup>9</sup>

The research reported here was conducted among small and micro employers, and follows two previous research studies with similar objectives, carried out with medium and large employers separately.<sup>10</sup> It explores the views of employers in the public and private sectors who were allocated 2016 staging dates, and of workers who were automatically enrolled at those employers, or others of the same size.

## 1.2 Research objectives

As with the previous, related research into experiences of automatic enrolment, DWP commissioned this study in order to understand the perspectives of both employers and workers. It sought to ascertain what information employers and workers use and how this shapes their decision-making. Ultimately, in addressing these questions, the research aimed to inform policy aimed at encouraging people to prepare financially for retirement. In light of this, there were several key objectives:

- The study sought to understand the attitudes that small and micro employers and their workers held towards retirement saving in general, and automatic enrolment as a policy. As part of this it was vital to explore expectations for retirement, as well as to establish who both employers and workers saw as responsible for providing for an individual in their retirement.
- The study also aimed to find out what information, knowledge and skills employers and individuals accessed or used in relation to the reforms, and how this impacted upon employers' choices in implementing automatic enrolment. It further aimed to explore the level of burden experienced by employers in discharging their automatic enrolment duties, both in terms of the time required and the financial costs.
- In addition, a key aim of this study was understanding the experiences of workers and their rationale for remaining in or opting out of the scheme following automatic enrolment.
- Finally, the study sought to explore employers' and workers' reactions to phasing, and the impact it may have both on companies and individuals, and on automatic enrolment as a policy.

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<sup>8</sup> TPR. (2017). *Monthly compliance report*.

<sup>9</sup> DWP. (2016). *Workplace pensions: update of analysis on Automatic Enrolment 2016*.

<sup>10</sup> See Wood *et al.* (2015). and Wood *et al.* (2013).

## **1.3 Policy objectives**

By addressing the research questions we identified in Section 1.2, the research aims to support DWP in creating policy that succeeds in changing retirement savings behaviour. The results of this study are designed to feed into discussions around the success of automatic enrolment in increasing the number of individuals saving for retirement through a workplace pension once automatic enrolment has become an established part of the workplace pensions landscape.

This research was also designed to inform discussions around areas for policy development by understanding employers' decision-making around automatic enrolment, and learning from the experiences of the processes they went through.

Section 1.4 describes the research methodology used with these objectives in mind.

## **1.4 Research methodology**

The research consisted of two separate elements. As background, we conducted an evidence review examining existing literature on automatic enrolment. Secondly, we collected primary data through face-to-face interviews with 70 employers who had implemented automatic enrolment in 2016 and 65 workers who were automatically enrolled in 2016: 40 who had remained enrolled, and 25 who had opted out.<sup>11</sup> In addition, we collected and analysed administrative data about the workforce of the employers, including their monthly opt-out rate for the duration of the research.<sup>12</sup>

### **1.4.1 Sampling approach and initial contact with employers**

TPR provided the research team with a list of organisations with staging dates from April to August 2016, who had notified the regulator of compliance with their duties.

The sample included employers who had implemented automatic enrolment on their staging date, as well as those who used the option to postpone implementing their duties. All the employers were allocated a staging date according to the size of their workforce as assessed in 2012, ranging from a maximum of 29 workers among those staging in April 2016, to a minimum of one among those staging in July 2016. Employers' staging dates were noted individually on the list, which also included a named contact for each employer, together with their contact details. Employers were selected at random, while ensuring a representative spread of employers in terms of size, region, and sector. The distribution is outlined in Section 1.5.

Our research team made initial contact by telephone, using scripted questions to identify the correct contact, i.e., the individual charged with primary responsibility for implementing the automatic enrolment process. We also captured other key details, such as, whether the employer planned to use postponement.

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<sup>11</sup> See Appendix A (A.5 to A.7) for the interview guides.

<sup>12</sup> The template used for this appears in Appendix A (A.4).

## Automatic enrolment: Qualitative research with small and micro employers

The recruiter explained the purpose of the call, and what participating in the research study would entail. Provided the employer contact was prepared to consider being involved, the recruiter then forwarded a letter from DWP to confirm the details of the research, and a copy of the template they would be expected to complete each month, if they decided to participate in the study, in order to check that they were comfortable accessing and providing this data.<sup>13</sup>

Each participating employer was offered a financial incentive for taking part, in recognition of the fact that the requirements of the research – participating in a one-hour interview, arranging interviews with workers, and supplying administrative data over several months – could potentially be a challenge.

A depth interview technique allowed the research team to collect qualitative data in a discursive way, focusing flexibly on the most important aspects of individual employers' circumstances, views and experiences. Interviewers used a discussion guide to ensure that the objectives outlined in Section 1.2 were addressed. We aimed to include employers from the full range of sectors and industries in the research. The sector split and profile of the 70 employers who took part in depth interviews is summarised in Section 1.5.

### 1.4.2 Organisational profiling and worker opt-out data

All employers were asked to complete a data template, providing both initial profiling information about that organisation, and on a monthly basis, information about workers who had gone into or out of the scheme in that month. Profiling information for each employer included their sector and exact size, demographics relating to the workforce, details of pension schemes in place at that employer immediately **before** the introduction of automatic enrolment, and whether postponement would be used, how long, and for which groups of workers.

Employers provided a headline count of workers who had been automatically enrolled into the pension scheme; opted into the scheme; opted out **during** the opt-out period, and left the scheme **after** the end of the opt-out period. They also broke down these totals according to gender, age bracket, part or full-time status and annual salary. All 70 employers also provided profiling and opt-out data.

Opt-out rates among our worker sample were low: indeed, some of the workers we interviewed who had opted out had to be recruited from small or micro employers who were not taking part in the study. However, this was a qualitative study and the sample was not sufficiently large to draw any statistically robust conclusions. In addition, because the employers in this study were far smaller than those who participated in previous studies, it would be misleading to quote a single opt-out rate. For example, a firm with two workers can only have an opt-out rate of 0 per cent, 50 per cent or 100 per cent. More than 70 observations of employers would therefore be required to reach a statistically robust conclusion.

This said, the findings here, and our experiences during recruitment, suggest that opt-out rates among eligible employees who work for small and micro employers are likely to be found to be low, when further research is undertaken to quantify the extent of opt-out among them.

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<sup>13</sup> The letter and fact sheet sent to employers appear in Appendix A (A.1).

### 1.4.3 Qualitative depth interviews with workers who have opted out

Where practical, and where they were willing to, employer contacts arranged for the research team to carry out depth interviews with workers – both those who had remained enrolled, and those who had opted out or ceased scheme membership after being automatically enrolled. In-keeping with the informal nature characteristic of these small and micro employers (SME), the employer contacts tended to make casual enquiries with regards to interest through conversation, as opposed to written enquiry via email or letter, often taking place during informal meetings or tea and coffee breaks.<sup>14</sup> If requested, interested workers were given further detail about the research in the form of an information sheet, which included detail on how information they provided in an interview would be used.<sup>15</sup>

Worker interviews lasted up to 30 minutes, and were arranged on-site, at the same point as the employer interview. As with the employers' interviews, discussions with workers followed a discussion guide to ensure that the objectives outlined in Section 1.2 were addressed.

## 1.5 Profile of participating employers

The 70 employers were located around the UK, and represented a range of industry sectors. The sector split is shown in Table 1.1.

**Table 1.1 Number of employer interviews carried out, by sector**

Sector	Number of employers
Accommodation and Food Service Activities	2
Administrative and Support Services	3
Agriculture, Forestry and Fishing	2
Arts, Entertainment and Recreation	2
Construction	6
Education	5
Financial and Insurance Activities	4
Human Health and Social Work Activities	1
Information and Communication	2
Manufacturing	11
Professional, Scientific and Technical Activities	5
Real Estate Activities	3
Transportation and Storage	2
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles	8
Other Service Activities	14

<sup>14</sup> Although this meant that it was impossible to recruit workers without the participation of the employer, the research team worked hard to ensure that workers' interviews were carried out in complete confidence, typically in a private room, in order that the employer was not able to influence workers' responses.

<sup>15</sup> The letter and fact sheet sent to workers appear in Appendix A (A.2 and A.3).



## Automatic enrolment: Qualitative research with small and micro employers

Participating employers' staging months ranged from April to October 2016. Table 1.2 shows the number of employers with staging dates in each month, and the number of interviews carried out with employers in each cohort.

**Table 1.2 Employers' staging dates by month and number of interviews carried out**

Staging month in 2016	Number of employers participating in interviews
April	23
May	1
June	20
July	12
August	12
September	1
October	1

## 1.6 Profile of participating workers

We interviewed 65 workers at 42 different organisations. The sector split is shown in Table 1.3.

**Table 1.3 Number of worker interviews carried out, by sector**

Sector (number of employers from which these interviews were drawn in brackets)	Number of workers
Accommodation and Food Service Activities (2)	3
Administrative and Support Services (2)	3
Agriculture, Forestry and Fishing (2)	3
Construction (2)	2
Education (3)	4
Financial and Insurance Activities (1)	2
Information and Communication (2)	2
Manufacturing (10)	16
Professional, Scientific and Technical Activities (3)	7
Real Estate Activities (1)	2
Transportation and Storage (3)	4
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles (4)	7
Other Service Activities (7)	10

Of the workers interviewed, 30 were female and 35 were male. Fifty-seven worked full time for their employer (defined as 30 hours or more per week), while eight worked part time. The workers represented a range of ages (shown in Table 1.4) and annual individual incomes (Table 1.5).

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**Table 1.4** Number of worker interviews carried out, by age

Age	Number of workers
<22	1
22 – 29	20
30 – 39	16
40 – 49	4
50 – 65	20
Declined to state age	4

**Table 1.5** Number of worker interviews carried out, by individual income

Individual income	Number of workers
<£10,000 <sup>16</sup>	2
£10,000 – £14,999	6
£15,000 – £19,999	15
£20,000 – £29,999	16
£30,000 – £40,000	4
>£40,000	5
Declined to state income	17

## 1.7 Evidence review

Prior to collecting primary qualitative data through depth interviews, the research team carried out an evidence review of existing publications and reports into automatic enrolment. Its objective was to gather and synthesise existing insights into the behaviours of small and micro employers and their workers with regard to automatic enrolment. Namely, the review sought to explore:

- The behaviours and practices of small and micro employers in relation to automatic enrolment, including compliance with regulations.
- The factors that have influenced these behaviours, including attitudinal, awareness, understanding, situational and practical factors.
- The relationships between employers and employees. For example, how the attitudes and behaviours held by employers affected the attitudes and behaviour of their employees.

The evidence review found that small and micro businesses account for the majority of UK businesses, and that they are increasing in number. Office of National Statistics (ONS) data showed that micro businesses (those with up to nine employees) account at present for 89 per cent of all businesses in the UK, while small businesses (10 to 49 employees) make up

<sup>16</sup> For 2016/17, workers who are earning less than £10,000 per annum are normally classified as non-eligible jobholders and should not therefore be automatically enrolled. It is possible however that the workers who described themselves as earning under £10,000 a year were earning slightly more in the month in which they were automatically enrolled.

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a further nine per cent.<sup>17</sup> Statistics from the Department of Business, Innovation and Skills (BIS) (since merged into the Department for Business, Energy and Industrial Strategy) showed that these small and micro businesses tended to employ a higher percentage of both the oldest employees (those aged 65 and older), and the youngest (those aged between 18 and 24) than other sizes of business. They also employ a higher percentage of workers from disadvantaged backgrounds, including migrant workers, people with disabilities, and people who are leaving unemployment, than their medium and large counterparts.<sup>18</sup>

The evidence reviewed in this stage of the research also indicated that employers in small and micro businesses had a good general awareness and understanding of automatic enrolment based on DWP's criteria: most had heard of it, knew what it was, what it entailed, and approximately when their staging date was before receiving the official letter from TPR. For example, DWP's *Automatic Enrolment evaluation report* in November 2015 found that 88 per cent of small employers and 77 per cent of micro employers were generally aware of what their automatic enrolment duties entailed. According to DWP, there were significant increases in understanding of automatic enrolment from autumn 2014 to autumn 2015, with it rising among small employers by nine percentage points (to 59 per cent) and among micros by 14 percentage points (to 48 per cent).<sup>19</sup>

Using similar indicators of awareness as DWP, TPR's 2016 research<sup>20</sup> found further evidence supporting an increase in awareness. While understanding remained largely unchanged for micro employers, rising from 56 per cent to 60 per cent, small employers saw a significant increase from 68 per cent to 81 per cent. The same report found that approximately half of all employers could accurately recall their staging date, and this accuracy increased, unsurprisingly, along with their proximity to staging. Additionally, TPR found that the majority of these employers were confident in their future compliance with automatic enrolment, with nearly all employers interviewed having spontaneously sought information ahead of their staging date.

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<sup>17</sup> ONS. (2015). *UK business – activity, size and location*. This study shows the position of businesses who have registered for Value Added Tax (VAT) and/or Pay as You Earn (PAYE), data mainly sourced from HM Revenue and Customs (HMRC) and Companies House.

<sup>18</sup> Stats from BIS. (2015). *Longitudinal Small Business Survey*. Results based on 15,500 CATI interviews distributed in proportion to the SME populations of the UK nations (number of interviews in Northern Ireland was boosted slightly in order to generate a total sample size of 500).

<sup>19</sup> DWP. (2015). *Automatic Enrolment evaluation report*. This evaluation report draws on existing information sources including Employers' Pension Provision Survey, Communications tracker, TPR AE Commentary and Analysis.

<sup>20</sup> TPR. (2016). *Employers' awareness, understanding and activity relating to automatic enrolment and evaluation of communications campaign*.

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However, despite relatively high levels of **general** awareness among small and micro employers, the evidence suggested that **detailed** understanding was often much lower.<sup>21</sup> For example, in summer 2015 the *DWP Employers' Pension Provision Survey* found that only 65 per cent of employers yet to stage were aware of the minimum contribution rate.<sup>22</sup> However, understanding of the details of automatic enrolment increased once an employer was within six months of their staging date: the *DWP Automatic Enrolment evaluation report 2015* found that understanding rose to over 75 per cent for employers who were within six months of their staging date.<sup>23</sup>

There was evidence that workers at small and micro businesses had a good general awareness of automatic enrolment (74 per cent as early as 2014, according to DWP's Pensions Portfolio research).<sup>24</sup> However, as with employers, detailed understanding was often much lower than overall awareness. Workers often did not understand the details of automatic enrolment, such as how much they would actually have to pay in each month, how much their employer would pay in, and the fact they could opt back in even if they opted out.

Many employers also saw automatic enrolment as 'a good idea for their employees': DWP found that 79 per cent of small employers and 67 per cent of micro employers agreed with this statement.<sup>25</sup> Workers, too, increasingly saw automatic enrolment as a positive thing. For example, the Pensions Portfolio research found 78 per cent of working adults in their study to be positive about the policy in 2014, compared to 74 per cent in November 2013.

Finally, compliance rates for automatic enrolment have been very high to date. The regulator had to use its powers with only a small proportion of employers, who had failed to meet legal requirements.<sup>26</sup>

The findings of the literature review informed the interview design for the primary research phase; in particular, how we asked all audiences about their awareness and knowledge, how we discussed attitudes to automatic enrolment within a 'bigger picture' of the individual's life or the company's plans, and how we explored the rationale of workers who opted out.

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<sup>21</sup> DWP measured employer understanding as knowing all three elements of the awareness definition (knowledge that employees must be automatically enrolled, that a pension scheme must be provided, and that contributions must be made by the employer to employees pensions), plus two additional features (that employers will have to complete a declaration of compliance with the appropriate government body, and that employers will need to communicate the reforms to their employees on an individual basis).

<sup>22</sup> DWP. (2015). *Employers' Pension Provision Survey*.

<sup>23</sup> DWP. (2015). *Automatic Enrolment evaluation report*.

<sup>24</sup> DWP. (2014). *Pensions portfolio: communications tracking research. Findings from the March 2014 survey*.

<sup>25</sup> DWP. (2015). *Automatic Enrolment evaluation report*.

<sup>26</sup> TPR. (2016). *Automatic Enrolment compliance and enforcement quarterly bulletin April-June 2016*.

## 2 Employers' perspectives on pensions and initial reactions to automatic enrolment

The focus of this chapter is the range of employers' attitudes towards pensions and their initial reactions to automatic enrolment. Section 2.1 explores employers' attitudes towards saving for retirement generally, before focusing on workplace pensions and automatic enrolment more specifically. In Section 2.2 we look at the pension arrangements that employers offered prior to automatic enrolment. Section 2.3 discusses employers' awareness of automatic enrolment prior to receiving official communication from the regulator. Finally, Section 2.4 describes the information employers sought after hearing about automatic enrolment.

### 2.1 Employers' attitudes towards retirement saving and pensions

Small and micro employers were typically relatively confident about their own retirement and tended to feel they had made adequate provision for themselves. They looked forward to being able to retire in their late 50s or 60s and hoping to enjoy a more relaxed pace of life while they were still relatively young and healthy. Many anticipated that they would find it difficult to 'slow down' following a very busy working life.

Most small and micro employers recognised the diminishing role of the state in pension provision, and felt this was inevitable and necessary due to an ageing population. They tended to feel that the State Pension ought principally to support those on low incomes, who, despite having worked hard all their lives, had earned relatively little and therefore struggled to save towards retirement. Consequently, small and micro employers tended to acknowledge that the role of the state in pension provision had shifted away from enabling comfortable retirement for everyone and towards being a safety net for those who need it most.

It followed that most small and micro employers recognised the purpose and value of automatic enrolment, and saw it as a necessary intervention. Many felt it would be actively beneficial to their employees, acknowledging that many were not currently making sufficient provision for the future, and that they required encouragement, and sometimes help, in order to save. In fact, most small and micro employers displayed high levels of paternalistic concern for their employees. There were relatively few employees at each workplace, which often meant that the employer knew all of them personally, and was aware of their individual situations.

Very few small and micro employers were of the opinion that pension provision should be the sole responsibility of the Government. Most felt provision was the responsibility of the employer alongside the individual. However, many also felt that the individual worker

## Automatic enrolment: Qualitative research with small and micro employers

should take the initiative in making sure they had adequate provision to allow a comfortable retirement. Many of these employers had themselves started to save into a personal pension early in their career, following their own initiative.

A handful of small and micro employers felt the Government should have placed less of the administrative burden upon employers, even though they were generally happy to pay the employer contribution. Some of these described a scenario where the Government might have administered the automatic enrolment process, in a method similar to National Insurance contributions, with contributions taken at source, but with the proviso that the option to opt out remained a function administered by the business.

*'I do think that the company has a role to play, as in stopping the contributions and stuff but it should have been something that was done by the Government, a bit like National Insurance. I feel like that would have been a better way to do it, rather than putting the onus on the companies to do the work.'*

(Employer, Manufacturing)

A very few small and micro employers, typically those with low profit margins, thought automatic enrolment should not be mandatory for the very smallest companies, by which they tended to mean those with fewer than ten employees. These employers tended to view it as an additional burden on the day-to-day running of the business and the legal duties they already had to fulfil as employers.

*'It's another burden to small businesses that ideally we could have done without. In principle though, I think people should be saving for pensions.'*

(Employer, Accountancy)

## 2.2 Pension offerings prior to automatic enrolment

It was rare for those small and micro employers interviewed to have offered workplace pensions before the introduction of automatic enrolment. Those who did tended to be companies making healthy profits and paying good salaries, and in which there was a strong ethos of providing employee benefits for workers 'above and beyond' salary. This sense of paternalism was typically stronger among employers in relation to their younger or less financially aware employees. Many such employers expressed pride in having offered a pension before being required to do so, and saw themselves as responsible, benevolent, and 'ahead of the curve' as a result. Indeed in cases where the contribution paid by the employer was previously greater than the minimum automatic enrolment level, the employer also tended to enrol new workers at this same higher level.

Cost was the main reason given for why so few employers offered pensions prior to automatic enrolment. Most had felt that it would simply not be financially feasible for them to offer a pension to their employees, due to their relatively low profit margins. On the whole, this was a sentiment that they had not tested by looking at their accounts to see if pension provision was feasible, as employers had simply assumed it was not.

*'It's a cost issue. We are a small company and cashflow is often tight and adding anything to that wasn't something we wanted to do.'*

(Employer, Publishing)

## Automatic enrolment: Qualitative research with small and micro employers

In some cases, an absence of demand or low levels of employee interest resulted in provision being ascribed a low-priority status, and as a result never being put into place. In addition, many small and micro employers stated that providing a pension had simply never crossed their mind.

*'It just didn't occur to me. I guess I assumed that there would be private pensions out there, which if people wanted they would go and seek them. I didn't actually think about it at the time, really.'*

(Employer, Construction)

### 2.3 Employers' awareness of automatic enrolment

Most small and micro employers had initially become aware of automatic enrolment as a result of DWP's media campaigns. They usually recalled hearing about automatic enrolment via television or radio, and typically felt this had happened around 18 months before their staging date. However, employers did not always attribute their initial awareness of automatic enrolment solely to the DWP's advertising campaign; rather they tended to remember hearing about the reforms from a variety of sources.

*'I get all sorts of information come through from various newsletters from accountants. I am a member of the Association of Accounting Technicians so I get a lot of information about all sorts of things. Also television. I saw it on there, newspapers, emails. I was bombarded basically. I got it from every possible direction you could imagine. I don't know how actually anyone out there can not know about it!'*

(Employer, Manufacturing)

As a result of hearing about automatic enrolment through these various channels, many employers were already aware of it when they first received communications from the regulator. However, a small number of employers only became aware of the reforms and what it meant for them when they received a letter from TPR.

Small and micro employers reported a range of emotional reactions in response to finding out about automatic enrolment. Although many initially tended to see it as a burden, they also acknowledged that the reforms would be beneficial for society at large.

*'[Automatic enrolment is] a necessary evil ... Is it another task for businesses? Yes. Do we sit there and think, "What an absolute and complete waste of time"? No, because I think that end result is something that needs to happen.'*

(Employer, Professional activities)

At this early stage – just after finding out about automatic enrolment – many small and micro employers were worried about the cost and time implications of preparing for and implementing it, expecting the process to be onerous. Some employers reported initially feeling anger and resentment towards the Government, given that they felt 'forced' into compliance. Others were emotionally neutral and simply viewed automatic enrolment as something that 'needed to be done'.

## 2.4 Employers' use of information and advice after hearing about automatic enrolment

After learning of their duties, some small and micro employers felt anxious and began seeking out information and advice about automatic enrolment. However, it was more typical for employers not to take any action until several months after learning their staging date. Typically, employers reported feeling that they had been given ample time to prepare ahead of their staging date, and for that reason they often did not think it was necessary to do anything immediately.

*'The Pensions Regulator certainly gave me enough notice that this was coming on, so I thought it was good. I didn't have to go looking for information. Everything was sent to me in plenty of time and I just had to read up on it and do it then.'*

(Employer, Other Service Activities)

The extent to which employers sought out information or advice varied greatly. Many employers looked for information online, and many also received advice from financial advisers or accountants. More rarely, employers networked with other employers, watched webinars, or attended seminars. Most employers visited the regulator's website after receiving the letter informing them of their staging date, and most found it clear, and easy to navigate. Only a few made use of TPR webinars or the helpline, and those who did also tended to be positive about their experiences.

*'The information was useful, yes. I think we found all the information that we needed to be able to implement automatic enrolment.'*

(Employer, Financial and Insurance Activities)

Employers who made use of professional advisers and intermediaries used them for guidance on approaching the process of implementation, or for help in choosing a provider. Employers tended to seek out professional advice in the early stages of preparation. Many of these employers had an existing, ongoing professional relationship with the adviser or intermediary they consulted. Less commonly, employers engaged a professional that they had not previously worked with. Employers tended to refer to intermediaries, whether independent financial advisers (IFAs), payroll providers or accountants, as 'advisers.'

Pension scheme providers were another important source of information and advice for many employers, even before they had chosen which provider they would go with. Employers made use of their websites, webinars, seminars, and helplines and many felt they provided concrete information that was very useful in guiding them through the process of implementing automatic enrolment.

*'I Googled quite a bit online and went through a lot of articles on Sage. The final thing which was quite helpful and which I wasn't aware was there at the time was Sage actually do a lot of webinars. It is like YouTube but for pension things. That was very helpful ...'*

(Employer, Other Service Activities)



## Automatic enrolment: Qualitative research with small and micro employers

When asked about the kind of information and support that would have helped them in preparing for automatic enrolment, some employers said that they wished the Government had offered face-to-face seminars, though they understood that this would be difficult to implement in practice. Some employers disliked having to read information and would have preferred the information in an alternative format, such as video or audio.

*'I don't know if they have organised any kind of online workshop or anything like that, or maybe a podcast. Especially in a digital place, you would think that perhaps instead of relying on people doing their research and reading a lot, maybe pushing more some kind of video or a podcast type of material and maybe using more social media would probably be a little bit more aligned to technological advances.'*

(Employer, Manufacturing)

# 3 Employers' experiences of implementing automatic enrolment

This chapter examines how small and micro employers went about implementing automatic enrolment. Section 3.1 outlines who had responsibility for implementing automatic enrolment at the different organisations we spoke to, and why they were given that responsibility. In Section 3.2 we explore financial confidence among small and micro employers, and how this could affect their approach to implementation. Section 3.3 looks at the rationale behind pension scheme choice in more depth, analysing employers' attitudes towards security and ease. Section 3.4 describes how employers typically communicated the reforms to their employees, and Section 3.5 goes on to examine the perceived and actual challenges faced by small and micro employers when putting automatic enrolment into practice. Section 3.6 discusses postponement. Finally, Section 3.7 looks at the similarities and differences between small and micro employers' respective approaches to implementing automatic enrolment.

## 3.1 Responsibility for implementation of automatic enrolment

Because the organisations participating in this study had small workforces and, typically, a simple employment structure, it was relatively easy for them to determine who would be responsible for implementing automatic enrolment. Generally, one person was in charge of the process: often a director or someone in an administrative role. For employers who processed payroll internally, responsibility for implementation often fell to the person who handled those processes. Occasionally, two people were involved, though one person tended to take the lead and carry out the majority of the tasks.

## 3.2 Financial confidence among small and micro employers

Employers reported having varying levels of confidence when it came to choosing, managing and administering financial products on their organisation's behalf. Most employers had not offered a pension scheme to workers prior to automatic enrolment, and as a result had no previous experience of implementing a workplace pension unless they had gained some in a previous job. Having experience, or a lack of it, affected employers' confidence in their own ability to implement automatic enrolment. Indeed, the degree of concern that employers expressed about implementation tended to relate directly to their own level of financial confidence, gained typically through their work history.

## Automatic enrolment: Qualitative research with small and micro employers

The degree of financial confidence they felt affected not only employers' attitudes to implementation, but tended also to determine whether they decided to carry out implementation themselves, or outsource some or all of the decision or administration to a third party, such as an adviser or accountant. Typically, the more financially aware and experienced the person leading implementation, the more confident they felt in handling the automatic enrolment process themselves, or allocating responsibilities to others. Conversely, less financially aware employers and those with limited financial experience often looked to external support to guide them through the automatic enrolment process, or to lead it on their behalf. This external support generally took the form of accountants or trusted financial advisers already employed by the organisation to handle payroll, accounts or similar financial activities.

Broadly speaking, employers fell into one of three groups in terms of their confidence levels:

- **Financially experienced, confident employers**, who were willing to implement automatic enrolment themselves, with little or no external help or advice. Many who took this option were already overseeing or running the company payroll and comfortable taking on the extra task of implementing automatic enrolment. Employers who were financially confident but very busy, however, sometimes chose to outsource the implementation of automatic enrolment, despite being confident they could handle it themselves with enough time at their disposal.

*'We had done a lot of research on behalf of our clients and identified companies that were suitable. When did I actually set up our scheme? A month before we auto enrolled, but I knew what I was going to do so it wasn't quite as bad as it sounds, but I did leave it until the last minute, but all was good.'*

(Employer, Financial and Insurance Activities)

- **Relatively confident employers who required reassurance**. Typically, these employers gained that reassurance by delegating responsibility to a trusted accountant. Often this was someone who had been involved with the business for a number of years. Again, these employers were often very busy, and did not have enough time to tackle implementation alone.

*'We have got an accounts and taxation services, so one of our in-house accountants predominantly dealt with a lot of the administrative setting business up of the account and I liaised with him. He kept us informed and I am signed up onto the website as the manager but it was all operated and undertaken in conjunction with our accounts manager upstairs.'*

(Employer, Other service activities)

- **Employers who were lacking in financial confidence**, and who did not feel comfortable implementing automatic enrolment. Some such employers decided to outsource responsibility for automatic enrolment completely, while others chose to continue with implementation themselves, albeit with little confidence. These employers tended to approach the task with a certain stoicism and determination.

*'We just thought, "Well it's got to be done hasn't it, so best get on with it." We felt a little anxious of what was involved, mainly down to cost implications and all the work involved ... But then once the process was underway, and it was done in small pieces, it was quite easy and we were able to manage it.'*

(Employer, Manufacturing)

## Automatic enrolment: Qualitative research with small and micro employers

Overall, three interconnected factors were key to employers' decision as to whether to outsource the implementation of automatic enrolment or manage it in-house – confidence, time, and cost. Confidence in their ability to handle the process was crucial to the decision, but somewhat irrelevant if a high day-to-day workload meant they were already operating at maximum capacity. Then, they offset the cost of the time associated with understanding their duties, selecting a provider and taking all the steps necessary to roll out automatic enrolment against the cost of outsourcing the process. In combination, these three elements formed the basis of employers' decisions to outsource automatic enrolment entirely, partially, or to manage it internally.

### 3.3 Choosing a pension scheme for automatic enrolment

As Section 3.2 has described, very few small or micro employers had offered a workplace pension scheme before the introduction of automatic enrolment. It followed that in making their preparations, many were selecting and setting up a scheme without prior knowledge of pension providers or products.

For most employers choosing a pension scheme, the factors that governed their selection were the scheme's perceived ease of set-up and use, or simplicity, and the perceived reliability of the scheme, or security.

*'It was probably a very basic Google search and NEST was one of those top ones on there, and given it was the main provider that seemed to be pushed by the Government, it seemed the safer option.'*

(Employer, Administrative and Support Services)

Employers who were less financially experienced and confident considered ease of use especially important. Security was important to employers because they tended to want to choose a scheme they felt would be a safe, secure investment for employees. Therefore, many employers who participated in the study chose the National Employment Savings Trust (NEST) as their provider, perceiving it to be the 'government scheme' and therefore viewing it as a safe option.<sup>27</sup>

Such employers ascribed their perception of NEST as 'safe' to its website, which described the scheme as 'the workplace pension set up by the Government'.<sup>28</sup> Some employers also mentioned gov.uk, where NEST is described as 'an executive non-departmental public body, sponsored by the Department for Work and Pensions'.<sup>29</sup> Others made reference to the Money Advice Service (MAS) website which states that 'NEST is a pension scheme set up

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<sup>27</sup> Although the NEST Corporation is an executive non-departmental public body originally set up by government, the Government does not in fact advertise NEST above other schemes. See, for example, The Pensions Regulator (TPR) website: <http://www.thepensionsregulator.gov.uk/en/employers/duties-checker/outcomes/i-am-an-employer-who-has-to-provide-a-pension/choose-a-pension-scheme-or-check-your-existing-one.aspx>

<sup>28</sup> <http://www.nestpensions.org.uk/schemeweb/NestWeb/public/home/contents/homepage.html>

<sup>29</sup> <https://www.gov.uk/government/organisations/national-employment-savings-trust>

by the Government mainly to help employers with automatic enrolment.<sup>30</sup>

*'Given that the NEST one is government-backed, this gave a bit of extra security ... At least it was a more secure scheme in terms of reliability going forwards and knowing that there might be a pension at the end of it.'*

(Employer, Other Service Activities)

Some employers assumed that only NEST would be willing to accept their business in any case. Additionally, some employers cited the practical benefit of NEST being compatible with Sage Payroll.

### 3.4 Communicating automatic enrolment to workers

Employers typically described three key stages in communicating the reforms to employees.

The first stage, for many employers, consisted of having informal chats with workers around six months before staging, to raise awareness of the reforms and to let them know that automatic enrolment was coming. Due to their small size, speaking to all staff face-to-face was the most natural and easy option for many employers.

*'We are a small enough company that we could have general chit-chat during coffee breaks and stuff like that. Then when the time actually came, I printed out the template letters.'*

(Employer, Professional services)

Once employers had made a decision, the second stage was to inform employees of their choice of pension provider and their reasons for that choice. Again, they often did this face-to-face, but in a more formal setting than their preliminary conversations: a typical example being in a routine staff meeting.

*'I just had a very quick meeting with them prior to the staging date to say this is what is happening next month. Be warned. You will have one per cent removed from your wages and also there was no alternative in the beginning. They all had to be opted in and they had to opt out themselves. They couldn't just give me a note that said "I am opting out."'*

(Employer, Manufacturing)

The final stage was typically the statutory letter they gave to workers on staging. They described using the templates provided by TPR, or by their payroll or pension provider, which they perceived to be very useful and easy to use.

*'We did look at [another provider] as well but opted for NEST ... [it was] the ease with which we could do it [...] having templates for letters to send to staff. That was extremely useful.'*

(Employer, Financial and Insurance Activities)

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<sup>30</sup> <https://www.moneyadvice.service.org.uk/en/articles/nest-pensions>

## Automatic enrolment: Qualitative research with small and micro employers

Small and micro employers' typical information journey began on TPR's website. For some employers, the information they accessed here was initially daunting: they had not dealt with TPR before, and were unfamiliar with the regulator as an organisation. However, employers went on to explain that TPR's communications and website provided them with useful guidance during their preparations. Many described being able to see the process mapped out for them as very useful, because it allowed them to understand the process from start to finish more easily.

*'It was useful for keeping it on the radar. In everybody's busy business lives it is another task that is on the list. So from that point of view it was helpful and the checklist was quite good. Have you done that? Yes. Have you done that? Yes.'*

(Employer, Professional, Scientific and Technical Activities)

Having looked at TPR's website, some employers went on to speak to an adviser or accountant, either with a view to engaging them to help them throughout the implementation process, or to secure their support in choosing a pension scheme provider. Other employers continued the process alone, gathering the majority of their information online, and moving from TPR's website to Google searches and pension providers' websites. A few spoke to other employers, through either the Federation of Small Businesses (FSB) or their own network.

Once employers had chosen their provider, either alone or with help from an adviser or accountant, their main information source usually became that provider's website. Often they found all the information and materials they needed there.

*'It all started to become easier when I looked at the [provider's] website ... It made it straightforward and then everything I needed to do started to click into place. It told you on there what to do, and when to do it.'*

(Employer, Farming)

### 3.5 Challenges of implementing automatic enrolment

Employers identified two main costs linked to compliance with their new duties: the financial outlay, and the cost of the time spent preparing for and implementing automatic enrolment.

The financial outlay associated with automatic enrolment included the cost of employer contributions and fees they needed to pay any external advisers. Some employers were concerned initially that external costs would be high. A few spoke to other, larger employers with more workers and were expecting to pay similar costs; a few were concerned that costs would affect company profits, although most did not expect the implications to be significant. In reality, employers typically found the costs affordable, with many citing a financial outlay in the region of £500.<sup>31</sup>

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<sup>31</sup> This finding is consistent with TPR data. See <http://www.thepensionsregulator.gov.uk/working-out-your-clients-costs.aspx>

## Automatic enrolment: Qualitative research with small and micro employers

*'It was just easier to pay the £500 and get on with running the business, rather than doing paperwork and online billing and all the rest of it, just to meet deadlines.'*

(Employer, Wholesale and Retail Trade, Repair of Motor Vehicles and Motorcycles)

Many employers explained that they had initially anticipated spending a lot of time preparing for and implementing automatic enrolment, and that they had therefore expected the associated time costs to be challenging. They feared that their limited knowledge and experience of dealing with pensions would make the set-up process very time-consuming. However, once they had chosen a scheme provider and begun implementation, they realised they had exaggerated these concerns, and that only a few issues emerged. In reality, implementation took employers who handled everything themselves around two to three days in total. For those outsourcing to an adviser or an accountant, it took even less time: typically only one or two days. A few feared there would be an ongoing time requirement after going live, but quickly realised that, once implemented, automatic enrolment would 'look after itself.'

*'I was treating it with quite some trepidation, thinking, "Oh my God, this is something I don't know much about. How am I going to learn?" But it hasn't been half as bad as I thought it was going to be.'*

(Employer, Professional services)

### 3.6 Postponing automatic enrolment

Most of the employers interviewed did not make use of postponement, and expressed acceptance of their staging date. They tended not to see any point in delaying a process that had to be put in place, especially as the postponement period covered only a short window of time. The few employers who participated in the study and did use the postponement period were roughly evenly split between those who had highly transitory workforces, and those who came to the process with no experience of pensions at all, and wanted time to build up some knowledge.

Those employers who fell into the first category reported situations such as knowing a worker would soon be leaving the company and therefore seeing little point in enrolling them for a brief period of time. In other cases, employers chose postponement in order to simplify the administrative processes connected to new workers' trial periods, so that if the arrangement did not work out from either the employer's or the worker's perspective, the worker would not have been enrolled unnecessarily.

*'When you take on new employees you know whether it is going to work out in the first three months, so rather than starting them straight away on the day of employment and then having the ins and outs and everything, if it doesn't work out with them then it avoids that.'*

(Employer, Professional, Scientific and Technical Activities)

*'The only thing is, as soon as you get a new employee ... We are a factory and sometimes somebody comes and goes within a month. I would just postpone it because I knew they were going. It wasn't worth enrolling them for a month.'*

(Employer, Manufacturing)

## Automatic enrolment: Qualitative research with small and micro employers

Employers who felt they needed more time due to coming to the process with no previous experience of pensions, tended to use postponement to 'buy some time' in which they could research their duties and ensure that everything had been completed correctly. This extra time tended to enable the employer to complete their duties, sometimes because it simply made them more focused on researching and then implementing automatic enrolment efficiently because they knew there was no more time available.

*'We postponed two months just to make sure everything was set up properly.'*

(Employer, Agriculture, Forestry and Fishing)

### 3.7 Similarities and differences in attitudes and behaviour of small and micro employers

The research aimed to establish and explore any differences by company size in terms of attitudes and behaviours when implementing automatic enrolment, and to understand how far a company's characteristics influenced its decision-making. In summary, there were more similarities than differences between small and micro employers.

#### 3.7.1 Similarities between small and micro employers

Both small and micro employers tended to feel they had a substantial part to play in providing their workers with pensions, although many also felt the initiative to make sure they were provided for in retirement should come from the worker themselves. This reflected the employers' tendency to be self-starting and entrepreneurial. In terms of attitudes to the reforms, both small and micro employers were likely to feel positively towards automatic enrolment, tending to view it as a 'sensible' policy and a necessary one.

In both small and micro companies, employers' company directors tended to have close relationships with employees, to have paternalistic attitudes, and to express a strong sense of caring about workers' futures.

*'I like to think we have sorted them [employees] out with a really good pension deal. I think that is part of my duty as an employer. We have very low turnover of staff here, and that is because we take an interest in them and know all about them, and care.'*

(Employer, Construction)

Employers tended to know most or all of their employees personally, and to show an understanding of their personal situations and how these might impact on their ability to contribute to the workplace pension. For example, they often knew about their workers' families, the approximate ages of their children, and the cost implications; or they knew about a worker's housing situation and aspirations.

Both small and micro employers tended to have been aware of the existence of automatic enrolment long before they learned their staging date from the regulator, and neither size of employer was more or less likely to seek out further information after becoming aware. Small and micro employers spent around the same degree of time and effort on implementation, and were about equally likely to struggle or feel at ease doing so. Ease of implementation tended to be more down to the level of confidence of the individual responsible for implementation, than company size.



Finally, small and micro employers were both equally likely to know about the planned increases in the minimum contribution rate, and both tended to feel that this would be manageable for them financially (see Chapter 5). Both agreed that knowing in advance that phasing was coming, and being able to plan for it financially were key to making sure it did not have a negative impact.

### 3.7.2 Differences between small and micro employers

There were very few consistent differences between small and micro employers in terms of attitudes towards pensions and automatic enrolment, and of putting automatic enrolment into practice. As Section 3.7.1 has indicated, differences in attitude and behaviour tended to depend on the characteristics of the **individual** responsible for implementation, rather than the size or characteristics of the **company** involved. However, a few differences in behaviour did emerge.

Although it was extremely rare overall, small employers were more likely to have offered workplace pensions previously in comparison to micro employers. This tended to be because they were more profitable, experienced fewer financial challenges, and because they paid higher salaries and therefore found that more pension providers were open to accepting their business.

Small employers were slightly more likely than micro employers to pay an adviser to help them implement automatic enrolment. This tended to be because a cost of this kind was more affordable to them than it was to micro employers; but also because the make-up of their workforces was often a little more complicated than those of micro employers, for example sometimes containing workers whose eligibility differed from one month to the next. This meant that automatic enrolment would potentially take them longer to implement without the support of an adviser.

## 4 Workers' perspectives on automatic enrolment

This chapter examines the attitudes of workers at small and micro employers and their experiences in implementing automatic enrolment. Section 4.1 looks at workers' awareness of automatic enrolment prior to being told about it by their employer or receiving the statutory letter. Sections 4.2 and 4.3 look at the attitudes of those who remained in and those who opted out after being automatically enrolled; both to retirement in general, and to automatic enrolment more specifically. In Section 4.4 we examine the ways in which, and extent to which, workers sought information and advice before making their choice about whether to remain in or opt out of the workplace scheme. Section 4.5 explores the different worker journeys through the automatic enrolment process, beginning with those who remained enrolled; next, looking at those who opted out, and finally examining some variations in the typical worker journey.

### 4.1 Attitudes towards retirement and pensions of workers remaining enrolled

Workers who remained enrolled and those who opted out echoed the sentiments expressed by employers, that the state could no longer be relied upon to provide for everyone's retirement and increasingly, could play only a limited role in pension provision. There was a commonly shared perception among workers who remained enrolled that a large degree of responsibility for pension provision lay with the employer, alongside the worker. Most workers trusted their employer to provide for them in this way.

*'Your employer should back you first of all, because if you have put in years of work for them, they should reward you with that pension fund.'*

(Worker, Accountancy, 30s)

In contrast, those who opted out – particularly the better off – tended to demonstrate a more individualistic outlook, expressing that provision for one's future was a personal responsibility, which lay primarily with the individual.

Levels of confidence in the ability to provide for one's own retirement, even with the support of an employer, differed a great deal among workers. Those who remained enrolled tended to expect to raise most of their retirement income themselves, but did not necessarily feel confident in the standard of living they would be able to provide for themselves in their retirement. For a few, raising their own retirement income meant 'working until I drop'.

*'I won't be retiring. I shall just carry on working until I drop.'*

(Worker, Manufacturing, 50s)

Those workers who remained enrolled were far less adamant in their choice than those who opted out were in their decision to leave. This may well be attributable to the influence of inertia: for many workers who remained enrolled, this was not necessarily an active choice, but rather a more passive acceptance of processes enacted on their behalf, which they recognised as being beneficial. In fact, when comparing automatic enrolment to other means of retirement provision, it was common for workers to liken a workplace pension to ‘a savings account that someone else is also paying in to’, or as ‘money for nothing’.

The research team divided those who remained enrolled into two broad typologies: the Inertia Bound and the Active Uptakers. While behaviourally there was little difference between the two, their attitudes and perspectives and therefore motives for remaining were markedly different.<sup>32</sup>

### **Case study: Remaining enrolled, Inertia Bound**

#### **Sam, male, 50s, wholesale and retail trade**

Sam has not spent much time thinking about pensions or planning provision for older age. He does not expect to be wealthy in retirement, and suspects that financial necessity will cause him to work beyond State Pension age.

Sam ascribes his somewhat cynical take on pensions to a combination of factors. He has witnessed others, including older family members, struggle financially in retirement. Money has often been tight during Sam’s working life, and there has been little or nothing left over for saving: the need for retirement planning has felt somewhat redundant as a consequence. He now has a sense that he did not start to save soon enough for his retirement, and that it is too late for him to make a substantial provision. Any pension he starts to invest in now, he thinks, will be of such limited value as to be useless.

Sam’s response to automatic enrolment was quite negative. He felt he was being forced into doing something, and so considered opting out. In reality, the deduction from his pay was so small that he didn’t notice it. Sam has decided to remain in for the time being, but may opt out when phasing means a higher contribution each month.

*‘You know you’ve got to do something – or you should be doing something – but it’s like it’s being forced on you now. I know we can opt out – and I probably will eventually – but at the moment it’s not a huge amount of money. I don’t really know that much about pensions. I’ve never really known anyone that has walked away smiling, I don’t think.’*

<sup>32</sup> Names in all the case studies that follow have been changed to preserve the anonymity of participants.

### Case study: Remaining enrolled, Active Uptaker

#### Jamie, male, 50s, manufacturing

Jamie thinks automatic enrolment is an excellent idea. It seemed clear to him from the first time he heard the term what was meant. He sees the employer contribution as ‘money for nothing.’

Jamie has always placed importance on preparing financially for the future, and is already investing in other private pensions, ISAs and property. Jamie thinks that people are fundamentally responsible for providing for their own future. This said, he recognises that pensions can be quite a complicated topic, and that some people need more help than he does. Nevertheless, he thinks automatic enrolment is a good strategy to address the gap in provision that an ageing population will bring about.

*‘I think some people don’t understand pensions. It is quite a complicated subject. I think they need guidance and I think they need to get advice so I can’t really comment on that but obviously it is complicated.’*

Having been taught by a former employer about the importance of pensions, Jamie has encouraged other colleagues – some of whom were a little unsure of the best course of action – to remain.

*‘I started in my 20s only because of the job I was in. I was involved with a lot of financial discussions and the guy I was working for who was my MD, he got me involved with financial people who did pensions and then he said “[Jamie], I think you should start paying into this.”’*

## 4.2 Attitudes towards retirement and pensions of workers opting out

Workers who opted out tended to be polarised between those who felt they did not need more provision, and those who felt they could not afford to save. Not surprisingly, those who could not afford the contributions tended to feel they would need support from the state in retirement; whereas those who had other provision tended to feel confident they could raise most of their retirement income themselves. All those who opted out tended to be far more certain about their choice than those who remained enrolled; not simply because they had to take an action, but because their emotional reactions to automatic enrolment were far stronger, regardless of whether they felt it was suitable for them or not.

Those workers who opted out tended to fall into four key ‘types’ of worker:

**The confident-affluent.** Many workers who opted out had other retirement provision, such as pensions from previous employers, private pensions, or investments in property. Often, they wanted to avoid having several small pension pots. Some were senior managers or directors who felt they had already provided very well for themselves in retirement. This group were also more likely to be cynical about pensions in general – but this was not their primary reason for opting out.

*‘There wasn’t any sense in having two [pensions], and I already had a pension. I had been working for a couple of larger companies and built up some schemes with them, so it didn’t influence me.’*

(Worker, Manufacturing, 50s)

### Case study: Opting out, Confident Affluent

#### Jasper, male, 50s, education

In his late 50s, Jasper is the managing director of his own company, in the education sector. He and his wife have two grown-up children and have paid off the mortgage on their home. They both have a private pension. He currently works full-time, but plans to reduce his workload over the next few years, taking a step back from the business. He and his wife also own two buy-to-let properties, which provide a modest amount of further income.

Having saved in several different ways for their retirement, Jasper and his wife expect to be comfortable, and did not see the point in creating another small stream of income through a new workplace pension, which over the course of a couple of years would amount to very little.

Being financially confident and a managing director, Jasper has had the opportunity to optimise the way he receives his income and additional benefits, and he began laying the foundations of a comfortable retirement a number of years ago.

*‘It’s my business, and I already got my company to contribute quite a lot to my pension, so there’s absolutely no point in having yet another little provider. I may as well stick with one and have it under one roof.’*

The decision to opt out was therefore a simple and pragmatic one that he reached almost immediately. The automatic enrolment pension was not necessary, thought Jasper, and it would not provide much.

Jasper recognises the value of automatic enrolment in encouraging individuals to save for their retirement and while he considers the automatic re-enrolment every three years ‘a bit of a faff,’ he also sees how it will encourage people to save, which he thinks is both positive and important.

## Automatic enrolment: Qualitative research with small and micro employers

**The transitory young.** Some younger workers simply felt that retirement was something too far in the future for them to consider now. Many also said they felt it was not worth remaining in their workplace scheme because they did not expect to be at their present employment for very long; this was especially the case for those in their first job. Most workers who fell into this type were unaware that their schemes may be portable if they changed jobs.

### Case study: Opting out, Transitory Young

#### Aaron, male, 20s, charity

Aaron is in his 20s, works full time for a charity, and earns a salary of between £15,000 and £19,999. This is his first stable, full-time job since leaving education. He currently lives with his parents in their family home, but is focused on saving to move out into rented accommodation next year. Saving up enough money is proving to be difficult, and overall he is worried about the expense of independent living.

Aaron has not given much thought to retirement at all: it seems a very long way off to him. That said, he believes he is responsible for his own provision and does not expect to be supported by the state in his retirement. While Aaron recognises the importance of saving for the future, at the moment he is focused on moving into his own home. He does not believe he can afford to pay into a pension at this point in his life, or that doing so is a necessity.

*'It was more to do with moving next year. I'm saving up to move out because I have to, basically. They [his parents] are going to be downsizing. I don't know who I'm moving in with, but if the worst comes to the worst it will probably be by myself. I'm struggling to see how I am going to be able to afford everything then, let alone everything else.'*

When making his decision to opt out, Aaron considered his current outgoings, which included loan repayments for his car. In a few years, perhaps when he has had a pay rise at his current employer, or a new job that pays more, he says he may reconsider. He is concerned about phasing, partly because he cannot predict what his financial situation will be in two years' time.

*'I still feel young, and I don't like to think so far ahead because I don't know what is going to happen by retirement.'*

**The older stoics.** There was a tendency among older workers who opted out to feel it was too late to start saving. Many of these workers felt that it would not be worth remaining enrolled because they would be contributing for only a few years, and the returns they would get would not make saving worthwhile. They differed from the senior manager confident-affluents in that they tended to feel resigned to a relatively basic retirement and the possibility that they may have to depend on the state to an extent.

*'It's too late for me – I'd hardly get anything back.'*

(Worker, Manufacturing, 50s)

*'I am only probably going to do three or four years more, so it didn't seem worth it. Maybe if we had gone back 35 years ago, it would be different. Age is playing a factor in this now.'*

(Worker, Nursery, 60s)

### **Case study: Opting Out, Older Stoic**

#### **George, male, 50s, charity**

George is in his 50s, works for a charity, and says he has given virtually no thought to retirement. He estimates that he earns around £20,000 a year: he is more confident that his take-home pay is around £1,200 each month. When he was younger, George never expected to be wealthy, and he long ago resigned himself to the idea that he would work 'until he drops'

George thinks automatic enrolment is a good idea in principle, but totally unrealistic in practice. If he had enough money to save in a pension, he says he would already be a member of the workplace scheme. Each month, all his earnings are accounted for, however: there is no money left over that could be saved. George knew straight away that he would be opting out.

*'Obviously I would have had a pension but I can't afford pensions [...]. The Government say the average man is on £25,000 a year. That is a load of rubbish. I don't know where they get their figures from. If I was on £25,000 a year, I wouldn't have opted out of this one. I live from month to month, so all my money is taken up with household bills, mortgage and that sort of thing.'*

George thinks his employer has a responsibility to provide for him as he ages, particularly because he has given a good portion of his life to the business, and has worked hard for many years. As long as he is in good health, George intends to keep working. He points out that even if he were to invest in a pension, there is no guarantee that he would live long enough to live from an income it provided. George is confident that all his future income will be earned through work.

## Automatic enrolment: Qualitative research with small and micro employers

**The strugglers and savers.** Some workers felt they were simply not earning enough to contribute, even though they were often earning above the minimum wage. Many mentioned the equity in their property and saw selling it as a last resort to providing for themselves. Other workers in this group felt they could not afford to contribute **at present** because they had other financial commitments – typically childcare or saving for a house.

*'I have too many outgoings, especially childcare costs. Out of my salary we put back £243 a month. I just couldn't justify more money coming out.'*

(Worker, Professional services, 30s)

### Case study: Opting out, Struggler and Saver

#### Janet, female, 50s, retail

Janet earns between £10,000 and £14,999 in a full-time job in the retail sector. She also works on a voluntary basis several hours a week. She describes giving passing thought to pensions as a young woman, but over the years she has thought more and more about financing her retirement. Janet is currently going through a divorce, and her plans for the future have changed somewhat. She had been relying on her former husband's pension: she is now uncertain about where her retirement income will come from.

Ideally Janet would like to retire while still in her 50s though expects to be in her 60s before she actually can. She is somewhat sceptical about pensions, having invested in a State Earnings-Related Pension Scheme (SERPS) in the 1990s but became confused with 'contracting out.' Over time, she lost track of this pension.

*'Financially I would love to think that I would be comfortable, so just to meet the everyday essentials, which would be whatever my accommodation is – whether it would be rent or mortgage – and utility bills and to run a vehicle. It would be a bonus if there was something after that in terms of holidays or a disposable income. Realistically, I don't think that would be the case for me. It would probably just be how it is now, just making ends meet.'*

Janet does not think her current retirement provision will provide that level of income, but current circumstances dictate that her focus is on the short term: how she will manage in ten to 15 years' time is not her priority.

*'I'm on a modest income, again it doesn't lend itself to making contributions to another pension scheme. I am already contributing to the State Pension scheme by my tax and national insurance. So I'm actually already contributing and now they want me to contribute some more. I have already contributed many, many years to the State Pension scheme.'*

During the research, we also encountered workers who displayed a certain cynicism towards pensions products in general. These workers were distributed across the types described above.

*'I don't have much faith in any of the financial institutions in the UK.'*

(Worker, Publishing, 40s)



### Case study: Opting out, Limited Faith in Pensions

#### Jack, male, 40s, manufacturing

Jack is in his 40s and lives with his wife and their child, he earns between £20,000 and £29,999 a year and is paying off the mortgage on the family home. Jack has not thought in detail about his retirement, but he has considered it in general terms and acknowledges that it is 'creeping up on him'. He anticipates working in some capacity into his 70s, an expectation borne out both of the desire to keep busy, and of financial practicality.

Jack does not feel the current financial climate is particularly positive, nor does he have much faith in UK financial providers. In his opinion, with current interest rates being quite low, he thinks investing in property is a smarter strategy than in a pension.

*'My house is worth more money without paying in, so by selling and downsizing a house that is mortgage-free, that will give us a lot more money than what we can make by putting it in the pension. It's easy money if you've got a property.'*

Jack thinks that individuals are more or less responsible for their own future and though he does not think the State Pension will be enough to cover an individual's retirement, he thinks this is the way things ought to be. He may consider opting back in further down the line when the family has a little more disposable income and phasing has reached three per cent, but for the time being he feels he is better served investing in property, a decision he came to very quickly.

*'When I heard it was happening I was hoping for an opt out opportunity because I think you are better off putting your money elsewhere.'*

## 4.3 Information and advice used by workers

**Approximately six months in advance of the staging date**, most workers recalled seeing television advertising, with some mentioning the Department for Work and Pensions (DWP)/ The Pensions Regulator (TPR) 'Workie' campaign. At this initial stage, workers tended to be familiar with the term 'automatic enrolment,' but did not necessarily know what it would mean for them as individuals, or understand the finer details. A small number of workers in senior positions found out about automatic enrolment through their role as employer. These worker-employers tended to be slightly more knowledgeable at the initial stages, and went on to build up a higher awareness of automatic enrolment, knowing that they would have to implement it in the course of their work.

**Two months in advance of staging**, having seen the adverts, workers reported being told by their employers how automatic enrolment would work in practice. This typically happened face-to-face, during tea-breaks or informal company meetings. They tended to feel this was the most natural way in which to be told about automatic enrolment: many had close relationships with their employers.

**When they received the statutory letter**, workers tended to pay little attention to it, because by this stage they were already familiar with the basic facts about automatic enrolment. Most did, however, understand what being enrolled would entail, as well as their contribution rates at the time of interview, albeit without a detailed understanding of how the qualifying earnings bands functioned. At the point where the statutory letter arrived, some workers discussed their potential decision informally with family, colleagues, or friends. It was rare for workers to seek out any written information outside of their employer.

## Automatic enrolment: Qualitative research with small and micro employers

*'[My employer] said to us that they would have to do it. She said that the company would put in one per cent and we can put in up to two per cent ... I probably just had a quick glimpse through it [the statutory letter] ...'*

(Worker, Manufacturing, 20s)

**At the point of being enrolled**, workers' choices to opt out or remain enrolled tended to be quick and instinctive, if they made a conscious choice at all. They tended not to find out how much the pension would be worth, often making the assumption that the low contributions they would be making would not result in a high-value pension. However, workers tended to see a positive side to this too, recognising that the contributions would not reduce their pay packet by much either.

*'It [the decision] was fairly quick because I was going to opt out anyway ... I can always opt back in if I change my mind. If I stayed in and decided a few months down the line that I didn't want to be in, then I would have lost money, but if I were to opt back in, I haven't lost anything.'*<sup>33</sup>

(Worker, Manufacturing, 30s)

## 4.4 Workers' journeys through the automatic enrolment process

Workers who remained enrolled did not typically spend excessive time considering the issue – indeed some spent almost no time. Typically, these were workers who felt they could probably afford the contributions that automatic enrolment would entail, and who also acknowledged that automatic enrolment was a good idea, at least in principle. As a result, they chose the path of least resistance, which was to remain enrolled.

Workers who opted out tended to give the decision much more thought, and were far firmer in their choice than those who remained members. We compare the views of these two groups in this section.

### 4.4.1 Typical journeys of workers remaining enrolled

Typically, workers who remained enrolled were relatively indifferent after being enrolled, and had not thought through the choice to stay in particularly carefully. Most of these workers felt they 'might as well' take the employer contribution, because they felt they should be saving for retirement. Most who remained in did not often check their payslip, and even if they did, they normally felt the pension contribution did not make much difference to it.

*'It just seemed to be a small benefit, really. I am part time and small hours so financially it's not really huge, but it's just a small extra ... It's just saving for the future anyway, isn't it?'*

(Worker, Financial and Insurance Activities, 30s)

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<sup>33</sup> Note that the respondent here is referring to short-term cash that would have been sacrificed, since the money would have been invested in a pension had they in fact saved. Furthermore, had the worker opted out, their contributions would have been refunded to them.

## Automatic enrolment: Qualitative research with small and micro employers

In the months subsequent to enrolment, the inertia of workers who remained enrolled tended to continue, with few seeking out new information or looking at the information sent to them by the pension provider.

*'I haven't sought out any information ... I was probably well-enough informed to not need to dig any information out ... It was one per cent. It didn't make sense, backing out. If they are going to give me that money when I retire, that's all good.'*

(Worker, Manufacturing, 30s)

### 4.4.2 Typical journeys of workers opting out

Workers who were nearing retirement or who earned very low incomes tend to make the decision to opt out as soon as they heard about automatic enrolment. These workers tended to be indifferent about employer contributions and communications did not sway them.

*'[I came to the decision] pretty much straight away. I didn't feel that my income lent itself to that expenditure.'*

(Worker, Other Service Activities, 50s)

Some workers with other sources of provision for retirement took a more considered approach before opting out. For example, they often reported talking to a spouse or adviser, or going on TPR's or their provider's website.

*'We had just come to the conclusion that we [his wife and he] weren't going to go with it personally. We were going to opt out, so that was the end of it.'*

(Worker, Professional, Scientific and Technical Activities, 50s)

The actual process of opting out was often a forgettable experience, with many workers reporting little or no recollection of how they actually opted out. Most did not experience any difficulties in opting out, so the process was perceived to be straightforward and simple among workers.

*'It was relatively straightforward. Obviously you go through online. I can't quite remember, but it was just jumping through the hoops and doing the right ... I can't remember how it was done now.'*

(Worker, Agriculture, 30s)

In terms of future plans of those opting out, workers who were nearing retirement frequently said they would opt out again if they continued working long enough to be re-enrolled. Workers with another source of provision often did not expect to remain, typically saying they did not want to have several small pension pots, or that they preferred a form of saving for retirement other than pension products. Workers who opted out due to financial commitments at that particular point in time, such as childcare costs, or saving for a specific purpose such as buying a home, were most likely to consider remaining, were they to be re-enrolled.

*'I'm saving up to move out because I have to basically. [...] What I want to do is move out, see how everything settles in and hopefully either earn more money from this job or earn more money from another job and I'll definitely enrol back in then.'*

(Worker, Other Service Activities, 20s)

### **4.4.3 Variations in workers' journeys**

A few workers changed their plans after making an initial choice about remaining or opting out. This was typically due to changes in financial commitment, life circumstances, or very changeable employment. There were four main reasons for variations in the typical opting out or remaining in journey. Firstly, and most commonly, there were workers who remained enrolled, despite having said initially that they would opt out. Typically these were individuals who thought they would not be able to afford the contributions, but found that in practice they could.

*'I fully intended to opt out, but it didn't seem to hit my pay packet as hard as I thought it would ... So I thought, "Oh well, I'll see how it goes."'*

(Worker, Retail, 30s)

Rarely, workers opted back in, shortly after opting out. Typically these were workers who had been but were no longer saving for something specific, such as a house deposit, or had been paying specific costs, such as nursery fees.

*'I'm saving to move out [of parents' home] ... I have got my car as well. I had to get a loan for the car and I am still paying off the loan and that is painful as it is. I really want to make sure that when I move out for the first time I want to make sure that I can pay for it all myself and I have no problems doing that. So I decided it was best to leave the scheme for the time being.'*

(Worker, Administrative services, 20s)

Very rarely, some workers had reportedly ceased membership after the end of the opt-out period. Again, these tended to be workers who were about to start saving for something specific or about to have very specific costs; or those who had a specific change in life circumstances.

Finally, there were those workers whose eligibility varied from one month to the next. This typically happened in sectors where a high proportion of the peak workforce were casual labourers, and those subject to seasonality. Some employers in these circumstances felt the time spent on automatic enrolment meant they were less likely to hire workers, and that they would simply somehow manage with those workers they already had in future, even in busy periods.

*'Especially with agriculture and farming, when you employ people over very short periods of time ... You could employ somebody for instance for a month and that is it and not see them again for a year ...'*

(Worker, Farming, 30s)

One employer, whose seasonal workload varies widely from month to month found this particularly challenging. As a result, during one month workers earned over £10,000 and so qualified for automatic enrolment, whereas the following month they did not. He was frustrated at a perceived lack of guidance for his particular circumstances.

*'There is one lady [...]. If she does a bit of overtime she becomes automatically entitled and if she doesn't she's slightly under the radar. I was trying to find out how that would apply. I never did get a proper answer to it.'*

(Employer, Arts, Entertainment and Recreation)

## **4.5 Assessing opt-out rates**

It is not possible, based on this qualitative research study, to report numerically on the opt-out data, because employers in this report represent far fewer workers than in previous DWP studies about the experiences of large and medium employers. It would therefore be misleading to quote a single opt-out rate aggregated across all the employers.

However, the evidence gathered here, and our experiences during recruitment of participants for this research, suggests a low opt-out rate. Of the 70 employers we interviewed, 58 had no workers who had opted out. Of the 12 employers where one or more workers did opt out, nine had only one opt-out, and three employers had two opt-outs.

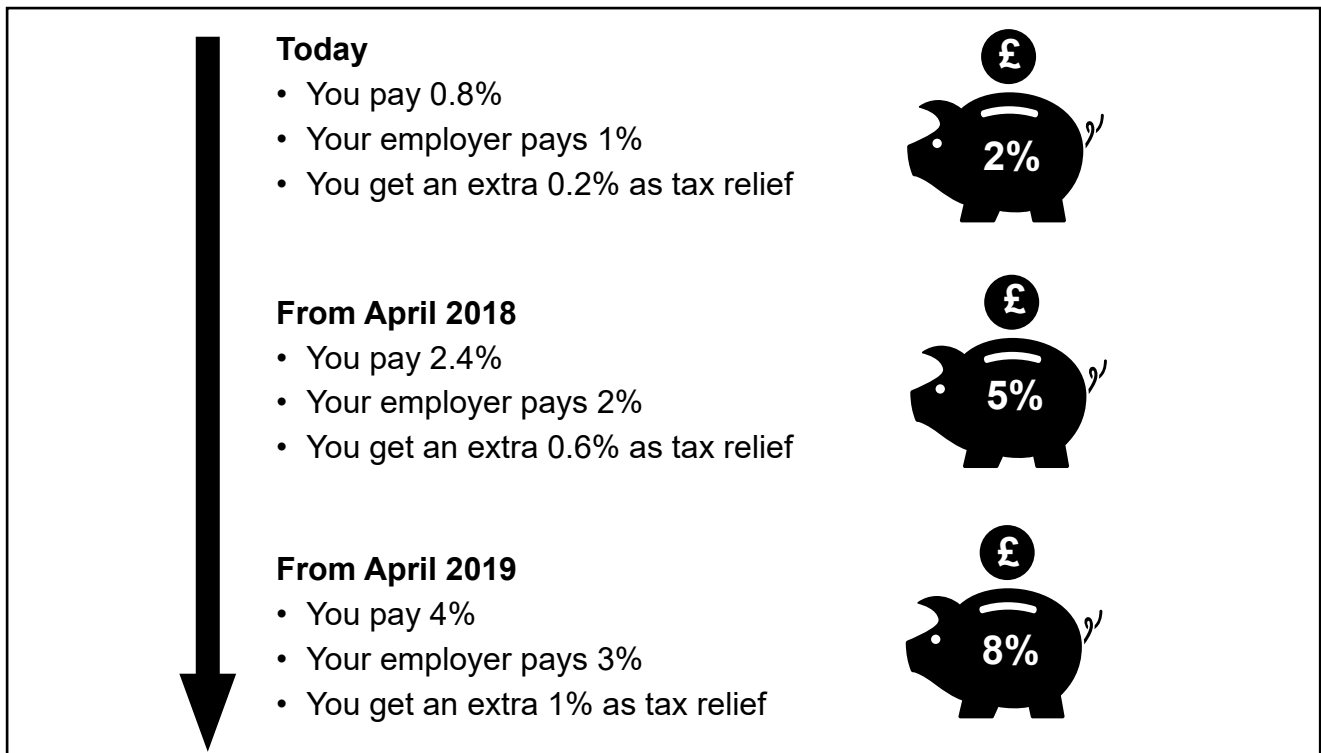
# 5 Employers' and workers' reactions to phasing

This chapter outlines reactions from employers and workers to the increase in minimum pension contributions leading up to April 2019, known as phasing. Section 5.1 looks at employers' reactions to phasing, while Section 5.2 explores workers' reactions.

## 5.1 Employers' reactions to phasing

Until 5 April 2018, the automatic enrolment minimum contribution rate is two per cent of the worker's salary within a band of earnings, of which the employer must contribute at least one per cent, and 0.2 per cent comes from the state in tax relief. From 6 April 2018, the minimum contribution will rise to five per cent, of which the employer must contribute at least two per cent and the state contributes 0.6 per cent in tax relief. The minimum contribution will rise again in April 2019 to a total of eight per cent, of which the employer must contribute at least three per cent and the state contributes one per cent through tax relief. We showed employers and workers the illustration in Figure 5.1 to demonstrate phasing visually.

Figure 5.1 Increases to contributions as a result of phasing<sup>34</sup>



<sup>34</sup> The numbers shown in Figure 5.1 belie the complexity of potential arrangements in the 'real world'. For example, if the employer pays the minimum total contribution, then the worker will not need to pay any contributions (unless the scheme rules require a contribution). Similarly, employees can choose to contribute more. In addition, the amount of tax relief a person may get will depend on how much they have contributed,

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Employers were typically aware that there was going to be a small forthcoming increase to minimum contributions and felt relatively calm about it. However, these employers had all been through automatic enrolment implementation; awareness of phasing may differ among employers who have not yet staged. Many said they would plan ahead in order to cover the increased costs associated with higher contributions, and so would be able to cope with the financial impact of phasing.

*'That's fine, because I know well in advance. We're talking just under three years and I know where we are going to be, so I can build that into my bigger picture with salary reviews.'*

(Employer, Electronics)

Some employers said they would cope with the additional cost of contributions by stopping or reducing salary increases. However, many felt that the additional contribution costs would simply 'get lost' among other business costs. A small group said initially that they would consider increasing the prices of their products or services to cover the higher contributions. On further reflection, however, these employers tended to conclude that their customers would not accept higher prices, and that this approach was not a practical option.

*'If I ask my customers to make additional payments because I have to pay my staff more, they won't do it.'*

(Employer, Manufacturing)

Most employers were not confident in predicting the impact that phasing would have on the level of scheme membership at their organisation. A few explained that their workers were only just able to afford the current contributions, and anticipated that the forthcoming increase may prompt some workers to cease saving or leave the scheme. These employers typically had a paternalistic company ethos: they wanted to take care of their workers' futures, and were concerned that a decline in scheme membership would be symptomatic of employees being under-prepared for retirement.

*'I think if you have responsibility for people's wellbeing, then you should care about their pension. I mean, you're getting a service from them, so you should look after that employee.'*

(Employer, Manufacturing)

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<sup>34</sup>  
(cont) their marginal rate of income tax (i.e., basic or higher rate) and whether their pension scheme administers tax relief through a 'Net Pay Arrangement' or 'Relief at Source' mechanism. People who earn below the income tax threshold, and do not therefore pay income tax, may still get an additional payment if their pension scheme uses 'relief at source' to add money to their pension pot.

## 5.2 Workers' reactions to phasing

To elicit their uncontaminated views, we broached the topic of the planned increases in the minimum contribution rate by asking workers how they would feel if their contribution were to increase in the future, without revealing that this would be the case. We then asked how they would feel if their employer's contribution each month were also to increase. If the worker did not show spontaneously that they knew an increase was coming, we showed them the illustration in Figure 5.1, and explained to them that both employer and worker contributions were going to increase.

### 5.2.1 Reactions to phasing: workers remaining enrolled

Whether they had stayed enrolled or opted out, very few workers were aware that automatic enrolment contributions would be increasing. Most of those who had remained in had not noticed much of an impact on their monthly take-home pay since their contributions had started to be taken out. Therefore, when we told workers in the interview that their contributions would increase, most workers who had remained reacted calmly, and suggested that they would not notice it too much in terms of their take-home pay.

*'I wouldn't be fazed really. It's such a minute figure in the whole scheme of things.'*

(Worker, Accommodation food and service industry, 20s)

*'I would like to know about the timescale of the increments, but I will probably forget about that and get on with my life. And then I will get told the contributions are going up to two per cent, and I will go, "That is fine," and then when it goes up to five per cent, I will go, "That is only doubling and a little bit, so that is fine." They are clever.'*

(Worker, Manufacturing, 30s)

Some workers who had remained enrolled were a little concerned about the increase in contributions in the future, and intended to keep reviewing the impact of contributions on their take-home pay. They felt that staying in the workplace pension scheme in the future would depend on their ongoing financial position. Others speculated that the increased level of contributions might affect their employer's ability to award pay rises, and therefore their own earnings in the future.

A small number of workers felt real concern about the rise in contributions. Typically these were workers who already felt they had only just enough income to contribute at present, or who anticipated increases to regular outgoings in the near future.

*'It's more to do with moving next year. I am saving up to move ... I am struggling to see how I am going to be able to afford everything then, let alone everything else.'*

(Worker, Other Service Activities, 20s)

However, many of these workers mentioned that even if they had to cease scheme membership for a period of time, they would be keen to opt back in at a later date.



## 5.2.2 Reactions to phasing: workers opting out

Workers who opted out did not typically feel that phasing would change their decision at all; rather, it cemented their decision to leave. For those who opted out because they could not afford to make contributions, the prospect of an increase simply made them feel even more strongly that they could not afford to remain enrolled. Those who opted out because they had other investments to provide a retirement income were not attracted by higher contributions, because they tended to see these as reflecting only a very small increase in potential return. They remained confident that it was better to add more to their own investments, than to start a new pension pot after being automatically enrolled.

Those who opted out due to a general distrust of financial products were also unmoved by the increase in contributions, because they simply had very little faith in traditional pensions regardless of how good a 'deal' was on offer. The higher level of contributions did not increase their confidence.

*'The increase in employer contribution does not change my mind. I am doing my own thing in my own way, and I am not excited by any government scheme. It will probably be gone within four years, so who knows? I don't have a lot of hope in it because of governments changing.'*

(Worker, Farming, 30s)

# 6 Next steps: employers' thoughts on the future

This chapter examines small and micro employers' thoughts and expectations for the future with automatic enrolment in place. Section 6.1 examines employers' views on post-implementation duties: the need to complete a declaration of compliance with The Pensions Regulator (TPR) and to administer automatic enrolment on an ongoing basis. This chapter goes on to look at the potential financial challenges employers face in the future, in terms of how they will meet scheme running costs, and the costs of employer contributions going forward, particularly in light of phasing. The final section of this chapter explores the advice that employers who participated in this study had for employers staging in the future, based on their own experiences of planning and implementing automatic enrolment.

## 6.1 Completing the automatic enrolment declaration of compliance

When the automatic enrolment set-up process is complete and all eligible jobholders are enrolled, the employer must submit a declaration of compliance. This entails the employer providing a variety of information to the regulator, including:

- the employer's contact details;
- its Companies House or Value Added Tax (VAT) registration number;
- the Pay As You Earn (PAYE) scheme reference(s);
- the employer pension scheme reference; and
- the type of pension scheme(s) that the employer is using for automatic enrolment.

Employers must also submit information about their workers, including:

- the total number of workers employed;
- the number who were already active members of a qualifying scheme on the employer's staging date; and
- the number of eligible jobholders who have been automatically enrolled into a qualifying pension scheme.

Employers must provide this information via the Government Gateway,<sup>35</sup> an online portal that gives access to a variety of government sites and services, which can also be accessed via the regulator's website. The process can be completed either by employers, or by third parties – such as accountants or advisers – working on employers' behalf.

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<sup>35</sup> The Government Gateway can be accessed at <http://www.gateway.gov.uk/>

Employers must complete their declaration of compliance within five calendar months of their staging date, and they cannot complete it before that date. If the declaration is not completed in time, they may receive a fine.<sup>36</sup> Declaring compliance is a legal obligation for all employers implementing automatic enrolment, and almost all employers we spoke to were aware of this, understanding why it was necessary for both the regulator and themselves.

All of the employers in the sample provided to our research team by TPR had completed their declaration of compliance. Therefore, non-compliant employers are excluded from this study, and so by definition all those we interviewed confirmed having completed it. Overwhelmingly, they had found this process straightforward, commenting that the information, and the quantity required, had not been difficult for them to generate. In fact, many could not remember the details of completing it because it had been so simple.

A few employers had not heard of the declaration of compliance, but when questioned further it emerged this was because they did not recognise the term, rather than because they were not aware they had to complete a process that confirmed they had implemented automatic enrolment. A few mentioned finding the term 'declaration of compliance' itself rather 'official', but tended to also recognise that to some extent official language was appropriate and necessary.

## 6.2 Ongoing administration of automatic enrolment

Once automatic enrolment is 'live,' employers must continue to:

- pay employer contributions;
- process opt-out notices they receive;
- send relevant communications to workers at the correct time; and
- keep records both about workers and about the pension scheme.

Employers' ongoing duties under the workplace pension reforms also include automatically enrolling:

- new eligible jobholders who take up employment with them;
- existing workers who become eligible; and
- non-eligible jobholders or entitled workers who decide to opt into or join the scheme.

As previous chapters have explored, small and micro employers had typically found implementing automatic enrolment to be far less of a burden than they had expected, both in terms of the financial implications and the time it required. They therefore often anticipated that administering the ongoing processes associated with automatic enrolment would involve even less effort than the initial planning and implementation had. Indeed, those who had been administering it for a while at the time of interview tended to report that, having enrolled all the current eligible workers and entitled workers who had opted in, there was comparatively little administration to do in subsequent months. Typically, employers did not have any additional workers to enrol after their staging month as they did not have

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<sup>36</sup> Details can be accessed at <http://thepensionsregulator.gov.uk/doc-library/enforcement-activity.aspx>

any new starters or workers with a pay increase that made them eligible. Many employers had overcome initial concerns, and had begun to perceive the ongoing administration of automatic enrolment as just another routine task, for which they felt comfortable taking responsibility.

### **6.3 Potential challenges in future years: meeting the scheme running costs going forward**

Most employers felt that the cost of running their automatic enrolment pension scheme in the future would not present issues. As the scheme was now up and running, and they had got used to their ongoing duties, they expected running costs to be manageable. Many employers handled payroll internally themselves using payroll software, typically Sage. Most employers also felt they knew or could sensibly predict what, if any, financial costs were to come. These employers had no new starters to enrol in a typical month, which meant administration time was kept to a minimum.

### **6.4 Potential challenges in future years: phasing and the ongoing costs of employer contributions**

Most employers felt that meeting the minimum contribution requirement was manageable at the time of the interview, because the current level did not typically equate to a large sum. They tended to explain that the contributions were fairly easily incorporated into monthly budgets and would not be felt particularly keenly. Few employers considered the ongoing costs of employer contributions to be a significant cause for concern. This was largely because they could see that the increase was gradual, and that they would be able to make preparations well in advance. Moreover, some employers felt their business would become more profitable as time went on, enabling them to absorb the cost of higher contributions more easily.

However, a handful of employers explained that as the cost of employer contributions rose, they would need to reassess the opportunity for salary and earnings increases. Typically, these employers were concerned about being able to afford the increase in workers' pension contributions as well as pay increases. As the pension contributions were mandatory, they would have to take precedence over any pay rises. Section 5.1 explores this in more detail.

Employers tended to express more concern for how their workers would cope with higher contributions, than how they would cope as a company. They tended to feel that higher contributions would be challenging for workers who earned low wages, or those who they knew had specific outgoings that left them little money to spare each month. Many feared that workers may opt out or cease membership because they could not withstand a further reduction in their take-home pay. Employers' concern here was for the future of their workers, rather than for themselves or their companies.

## **6.5 Potential challenges in future years: worker opt-out rates and the impact of phasing**

The opt-out rates that employers at small and micro companies reported were low. Our primary research among workers and employers, and the evidence review preceding it, has found little evidence to suggest that the decision to opt out is governed by a worker's gender, sector, or location. Rather, there are indications that this decision is more closely related to the specific situation and attitudes of the individual making the decision.

Many workers who have remained enrolled, did so as a consequence of inertia, and in some cases, the recognition that they did not really notice the pension contribution coming out of their earnings. As we have seen, some of those who opted out did so because they had alternative retirement provision, which they felt confident would provide adequately when they reached the end of their working life. Some opted out as a result of their current life-stage and financial situation, but intended to remain enrolled or to opt back in in the future, when they anticipated the contributions to feel more affordable. Other workers opted out because they felt they could not afford the contributions, or were not going to stay in their present employment for very long. For this final group, who were often at the younger end of the workforce, communicating the portability of workplace pensions could impact on their decision, and mean that they choose to remain enrolled.

With all this in mind, the introduction of the planned increases in the minimum contribution rate (phasing) was a key area of enquiry for this research, especially as it was hypothesised that phasing could be a deciding factor for workers who were unsure whether to remain enrolled. However, both employers' and workers' typical reactions to phasing were measured in nature.

Employers tended to react calmly to phasing, largely because they felt they had been given enough notice to take actions that would enable their businesses to cope with it. They appreciated being able to plan their financial actions with regard to automatic enrolment and, explained that they continued to expect to be able to do this. With this in mind, continued early communication to employers was seen as important.

Workers tended to be less certain of the impact phasing would have on them, but nevertheless tended to react calmly to it in principle. They were less certain of whether they would be able to remain enrolled once the contribution they paid each month increased, typically saying that they would need to 'see how it goes' before deciding whether to opt out.

## **6.6 Advice to other employers**

Employers gave various recommendations for other employers who were yet to plan for and implement automatic enrolment. Employers frequently talked to us about their initial apprehension about implementing automatic enrolment, expecting it to be an onerous task. Typically however, they were keen to convey to other small employers that the process had not been as difficult or time-consuming as they had anticipated. They recommended consulting TPR's website and talking to others in their situation early on, in order to gain reassurance.

## **Automatic enrolment: Qualitative research with small and micro employers**

Even so, the employers we spoke to advised others to start preparing for automatic enrolment early. In particular, they felt that gaining an understanding of the legislation and its requirements well in advance of the staging date was imperative. A period of six months was suggested by some.

Finally, many employers recognised the benefits of being in a small company in terms of being able to talk openly to their employees about automatic enrolment in an informal way, and so were keen to point out this benefit to other small employers.

# Appendix A

## Materials used in conducting the research

### A.1 Invitation letter and fact sheet for employers

[DATE]

Dear [NAME]

#### **Research to explore your experiences and views of auto-enrolling your employees into workplace pensions**

Thank you for agreeing to take part in this research on behalf of the Department for Work and Pensions (DWP). This letter, and the accompanying fact sheet, have been designed to confirm some key details about the research we are carrying out, and to provide further information, should you require it.

This study will explore how both employees and employers are responding to automatic enrolment, and will measure how many employees who have been automatically enrolled, opt out of workplace schemes. We very much look forward to learning about your experiences as an employer who is introducing automatic enrolment.

This research is important to understand the implementation of one of the major programmes being carried out by the Government, and it is essential they understand how it is working and the experiences of employers and employees.

The research is being conducted on DWP's behalf by Breaking Blue, an independent research organisation. The Breaking Blue project team are contacting employers who are scheduled to implement automatic enrolment in 2016 to invite them to participate. The attached fact sheet explains more about what taking part will entail.

Your company was selected at random from The Pensions Regulator's database and we are contacting you for research purposes only. Any information you provide will be held in the strictest of confidence and will be handled securely throughout the study. We will not share any information about who has participated, other than with members of the DWP research team. Unless you agree explicitly, the research findings will not identify you or your organisation and no personal information will be shared with any third parties.

In return for your time, we would like to provide you with an incentive of £100, plus £25 per employee you provide and who takes part in the project. We will also give £20 to each employee who takes part.

## **Automatic enrolment: Qualitative research with small and micro employers**

If you have any questions about the research please contact Breaking Blue: you can reach the project team on [CONTACT DETAILS] between 9am and 5pm, Monday to Friday. You can also use these contact details to tell Breaking Blue that you no longer want to participate. If you have any wider questions about the research study, my own contact details are at the top of this letter.

We are very grateful for your contribution to this research, which will provide us with valuable information that will help to inform and improve the implementation of this key policy.

Yours sincerely,



## A.2 Invitation letter and fact sheet for workers remaining in the scheme

### Research to explore your experience of being automatically enrolled into a workplace pension

Breaking Blue, working on behalf of the Department for Work and Pensions, is carrying out a programme of research to understand how employers and workers have chosen to respond to automatic enrolment.

We are conducting interviews with staff in small businesses throughout the UK – at all levels of seniority and in many different locations. We are speaking both to people who have chosen to stay in their workplace scheme, and to those who have decided to opt out, in order to understand their experiences.

### Why do we want to speak to you?

We're interested in talking to workers such as yourself to understand your experiences of being automatically enrolled into a pension, and how you feel about being in a workplace pension scheme.

We understand that some people will not have made a conscious decision to stay in the pension scheme that they were enrolled into. We are interested in speaking to you, even if you have given very little thought to whether to stay in the scheme or leave it.

We are interested in speaking with you to discuss things like:

- How you found out that you would be automatically enrolled into a workplace scheme.
- Any sources of information you used in finding out about automatic enrolment.
- Your thoughts about planning for retirement.

We understand that some people won't have given these issues much thought, and that's fine too – we're still interested in your instinctive reactions.

### What will we do with the information?

Eventually we will write a report for DWP which will draw together all the information and opinions we gather. We will use the information you give us **anonymously** when we come to write our report.

Everything you say will be treated as **strictly confidential** by the Breaking Blue project team, and your comments will not be attributed to you in any way that could possibly identify you in the report or the information we give to DWP. **Nothing of what you tell us will be repeated back to your employer.**

We are conducting the interviews under the terms of the Market Research Society (ESOMAR) Code of Conduct. They are being carried out for research purposes only.

Interviews will take approximately 20-30 minutes and to thank you for your time we will give you £20 in cash. Your participation in the research is entirely voluntary: you can end the interview at any time.

## **Automatic enrolment: Qualitative research with small and micro employers**

We would be happy to answer any questions, or talk to you about the research or your participation. You can ask the interviewer in person, telephone us on [TELEPHONE], or email us at [EMAIL].

You can check we are a genuine market research company with our industry body, the Market Research Society: Freephone 0500 39 69 99.

## A.3 Invitation letter and fact sheet for workers opting out

### Research to explore your experience of being automatically enrolled into a workplace pension

Breaking Blue, working on behalf of the Department for Work and Pensions, is carrying out a programme of research to understand how employers and workers have chosen to respond to automatic enrolment.

We are conducting interviews with staff in small businesses throughout the UK – at all levels of seniority and in many different locations. We are speaking both to people who have chosen to stay in their workplace scheme, and to those who have decided to opt out, in order to understand their experiences.

### Why do we want to speak to you?

We're interested in talking to workers such as yourself to understand your experiences of being automatically enrolled into a pension and choosing to opt out.

As someone who has chosen to opt out, we are interested in speaking with you to discuss things like:

- How you found out that you would be automatically enrolled into a workplace scheme.
- Any sources of information you used in finding out about automatic enrolment.
- How you decided to opt out of the scheme.
- What happened when you opted out.
- Some of your thoughts about planning for retirement.

We understand that some people won't have given these issues much thought, and that's fine too – we're still interested in your instinctive reactions.

### What will we do with the information?

Eventually we will write a report for DWP which will draw together all the information and opinions we gather. We will use the information you give us **anonymously** when we come to write our report.

Everything you say will be treated as **strictly confidential** by the Breaking Blue project team, and your comments will not be attributed to you in any way that could possibly identify you in the report or the information we give to DWP. **Nothing of what you tell us will be repeated back to your employer.**

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Interviews will take approximately 20-30 minutes and to thank you for your time we will give you £20 in cash.

## **Automatic enrolment: Qualitative research with small and micro employers**

Your participation in the research is entirely voluntary: you can end the interview at any time.

We would be happy to answer any questions, or talk to you about the research or your participation. You can ask the interviewer in person, telephone us on [TELEPHONE], or email us at [EMAIL].

You can check we are a genuine market research company with our industry body, the Market Research Society: Freephone 0500 39 69 99.

# A.4 Self-completion profiler, completed by all participating employers

## DWP: Study of automatic enrolment - your organisation's profile

Company information	
Month you are completing this form	Select from dropdown
Your company name	
Your industry sector	
Total number of employees	
Your staging date	Select from dropdown
Are you using postponement?	Select from dropdown

This should include all permanent members of staff, as well as those on short-term contracts.

Even if you are postponing auto-enrolment, please enter your *original* staging date.

Please select the option that best applies. You may postpone automatic enrolment by up to 3 months for some or all of your eligible jobholders

Choose one...

Absolute numbers

Percentages

Breakdown of your employees...		You can either give absolute numbers of staff (e.g. 14 are male and 28 are female), or percentages (e.g. 33% are male and 66% are female)								
... by gender		... by age			... by hours worked		... by annual salary			
Male	Female	< 30	30 - 49	50+	<30 hours/ week	30+ hours/ week	<£20,000	£20,000 - £39,999	£40,000+	

Your pension scheme(s)							
	Pension provider	Are you using this scheme for auto-enrolment?	Were there any members before your staging date?	If yes, how many?	Average employer contribution under auto-enrolment (% of salary)	Average employee contribution under auto-enrolment (% of salary)	What type of scheme is it? (e.g. a GPP/ a stakeholder pension)
Scheme 1							
Scheme 2							
Scheme 3							

Automatic enrolment opt-out data: Month 1		Please state the month this data applies to: Select from dropdown									
How many staff...	TOTAL	... by gender		... by age			... by hours worked		... by annual salary		
		Male	Female	< 30	30 - 49	50+	<30 hours/ week	30+ hours/ week	<£20,000	£20,000 - £39,999	£40,000+
Were automatically enrolled?											
Opted out, during the 1 month opt-out period?											
Left the scheme, after the opt-out period?											
Opted in to the scheme?											

Any information you provide will be held in the strictest confidence and will be handled securely throughout the study in line with the requirements of the Data Protection Act (2008). The information you provide will be used only for research purposes and for the purpose of analysis and reporting will merge together information collected from all employers in aggregate form. No information identifying you or your company will be reported or passed to the DWP or any other organisation.

## A.5 Discussion guide for employers

### Introduction and Warm-up (5 minutes)

#### Setting the scene/ground-rules

##### 1. Introduce self and Breaking Blue

- Research on behalf of DWP to understand how employers such as yourselves are responding to automatic enrolment
- Interviewing 70 employers throughout the UK who, like you, have recently introduced automatic enrolment; as you know, we are also carrying out interviews with some of your workers and asking you to provide admin data
- The discussion will take approximately 1 hour

##### 2. **Confidentiality:** We produce an overall report for DWP which will draw together all the information and opinions we gather.

But I can assure you that anything you tell me will be treated in confidence by the Breaking Blue project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP

##### 3. **Ask for permission to record for our analysis purposes.** Recording will not be passed onto any third party, including DWP, and will be destroyed after the project finishes

##### 4. **Confirm respondent's job title**

Before we start our discussion, would you like to ask me any questions?

Can you tell me a bit about the nature of your business? How many and what types of people do you employ? How long have they been working with you? How would you describe your relationship with them?

[If employing a nanny/carer] – do you see yourself as an employer?

### Section 2 – Preparing for automatic enrolment (10 minutes)

#### Who was involved

To begin our discussion, I'd like to get an understanding of where employee pension provision fits in at [EMPLOYER].

#### **Before automatic enrolment, did you offer a pension scheme to any of your employees?**

- *[If not]*, can you tell me a little about why not?  
Now skip to 'What role do you, as an employer ...'
- *[If yes]* Could you summarise for me the workplace pension arrangements that [EMPLOYER] had in place, before your preparations for automatic enrolment began?

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- What types of pension? What levels of employer/employee contribution?
- What was the level of participation in this scheme/these schemes, before automatic enrolment?
- Why did you offer a pension to your employees? How much of a priority are employee pensions, relative to other benefits?

### ASK ALL

- **Thinking about your employees, what role do you, as an employer, feel you should play when it comes to their pension provision?**
  - Should the employer help to look after the employee's future interests, or should it be the employee's decision to save?
- **Generally speaking, what are your thoughts on automatic enrolment?**

*Potentially could use statements as prompts:*

- The introduction of automatic enrolment is in principle a good idea for my members of staff*
- My organisation finds it difficult (time and cost) to contribute to a workplace pension scheme*
- It is fair that automatic enrolment applies to all employers, regardless of size*

I'd like to understand what preparing for and implementing automatic enrolment has entailed for [EMPLOYER].

- Can you tell me when and how you first heard about automatic enrolment? When did you realise you had to do something about it?
- Can you tell me when you began your preparations for automatic enrolment?
- Could you describe to me the preparation process that the organisation has gone through?
  - Who was in charge of the overall process?
  - Who was involved, internally? What were their roles?
  - **Do you outsource payroll or handle it yourself? (If handle themselves)** What payroll software do you use?
  - Who, if anyone, was involved externally? Did you get any information or advice from anybody? (e.g. accountants, advisers, pension providers, payroll providers)
  - What role did they play in helping you with automatic enrolment?
  - What contact did you have with The Pensions Regulator – what form did it take? Who contacted who, and when?
    - ~ Was your contact with The Pensions Regulator useful? How could it have been improved?
- More generally, what do you see The Pensions Regulator's wider role as being?

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- Have you had any help or support from any other third parties we haven't discussed already?
  - For example, have you had any communication with other employers who are preparing for, or implementing automatic enrolment? What form did this communication take?
  - What information or advice did they give you? How did this information influence your approach to automatic enrolment?
- Looking back at your previous workplace pension arrangements, to what extent have things changed as a result of implementing automatic enrolment?
- Do you have any thoughts on how the processes could be improved?

### **Information and advice used**

- Can you tell me about the information or advice you have used, in preparing for and implementing automatic enrolment?
- Did you do any research on the internet, for example? Where did you look?
- For each kind of information used ...
- What was the source of information? (where it came from, as opposed to what it told them)
- Where did each kind of information fit into preparations – was it used at a particular point?
- How did that help you with implementing automatic enrolment?
- What information played the most important role in helping you to prepare and implement automatic enrolment? Why would you say that was?
- Did you ask friends or family for information or advice at any point? What experience did they have, that you thought would be useful? What did you find out from them?
- Did you look at The Pensions Regulator's site? What did you like, or not like, about that? How useful, and simple, did you find it – how much of the information you were looking for did you find?
- At what point did you stop using TPR's site? Do you anticipate using it again in future? Why/when?
- [If not mentioned] Has [EMPLOYER] registered your declaration of compliance with your automatic enrolment duties with The Pensions Regulator?
- How did you find that process? Can you remember how long you had from your staging date (when your duties started) to declare compliance? [Prompt if needed: Was the declaration of compliance completed on time or not?]
- [If they said the declaration of compliance was registered late/TPR chased them] What were the reasons for the declaration of compliance being submitted late? What might have helped to complete the registration on time?



### Section 3 – Your choices in fulfilling your duties (10 minutes)

I'd like us to talk now about how [EMPLOYER] has gone about fulfilling your duties.

- How did you find the process of identifying which workers were eligible to be automatically enrolled?

*(NOTE: If it emerges here or previous to this point that most or all of the employer's workers opted out, acknowledge that and say it will be interesting to get their take on that and that we're going to talk about that in more depth further along in the interview.)*

- Which provider(s) are you using?
  - Did you consider any other providers? Why/why not?
  - Could you tell me more about why you chose the scheme(s) that you did? What did you take into consideration, when you made this decision? How did communications offered by the provider to employees influence this decision?
  - How did the cost of the scheme play into your decision? What about the provider's reputation? Did you consider how easy that scheme would be to set up and use? Did the payroll software/provider you use affect this?
  - *[If relevant]* did you make any changes to the arrangements for members of existing schemes – for example, moving them to another scheme, or making changes to their contributions?
- Can you tell me about how much is being contributed to the scheme(s), by you as the employer, and by employees (as a percentage of employee earnings)?
    - Tell me about that decision – how and why was it taken?
  - *[If not already clear]* Did you consider NEST or a similar multi-employer scheme? If not, why not?

If explanation necessary: A multi-employer scheme is also called a master trust – an occupational scheme designed for use by a large number of employers.

### Section 4 – Communicating the reforms (5 minutes)

Next I want to ask you about how you went about communicating to employees what automatic enrolment is and what was going to happen to them.

- Could you summarise for me what you did, and when?
- Did you use (or adapt) materials created by TPR, or from your pension provider? Fact sheets, booklets, case studies, posters, or anything else?
- Did you create any of your own materials? Tell me a little about this.
- What worked well? What worked less well, and why?
- Did you communicate this information to all staff, or just those who you knew were eligible for automatic enrolment?
- **How did you go about telling individuals that they have been automatically enrolled? Was it an email, a letter (to home or at work?) or something else?**  
*[If necessary, may need to prompt the employer that they have a statutory obligation to inform workers when they have been automatically enrolled]*

## Automatic enrolment: Qualitative research with small and micro employers

- Did you talk about the benefits of saving into a pension to your employees? For example, did you mention that there would be an employer contribution, or that they would get tax relief?
- How did employees respond to the communications? Did you field any questions from employees? If so, were you able to answer them?

Probe here to understand whether any issues were to do with knowledge, capacity or both.

### Section 5 – Employees who have opted in or out (5 minutes)

Now I'd like to talk to you about people who opted out. Just so you know, the opt-out period lasts a month after being enrolled. An employee can stop contributing after a month – this is known as cessation. I know that you are providing us with data about the number of opt-outs you are receiving – I'd also appreciate some feedback to go alongside any numerical data you send to us.

- If all employees opted out, as the following ...
- You mentioned earlier that all of your workers opted out. How did you feel when you realised that was the case? Do you think your workers might opt back in in the future?
- For all other employers (i.e. where at least 1 employee remain in) ask:
- Roughly how many employees have opted out of the scheme, after being automatically enrolled? (i.e. have left within one month of being enrolled)
  - Is there any pattern in the sort of person who is opting out – gender, age, lifestage, pay, working in particular locations or job roles?
  - And is there any trend in when they opt out – as soon as they receive notification? After seeing their monthly pay? Early in the window, or nearer to the end?
  - And do you receive any feedback on the reasons behind the decision to opt out? What sorts of things do you hear?
  - How does this compare with any expectations you might have had? Do you have any thoughts on why it might be higher/lower than you anticipated?
  - [*Whether higher or lower*] Do you feel that the communications had an impact on the level of opt-outs that you experienced? What was that?
  - Did any of your employees leave the scheme after the opt-out window (cessation of contributions)? What prompted this?
- Do you have any employees that DWP would consider to be 'non-eligible jobholders', who have the right to opt into the pension scheme? If so: How many of these employees are choosing to opt in?
  - What can you tell me about the employees who have decided to opt in? Are they under 22? Earning below the threshold of £10,000? Both?
  - What are your thoughts on why they are opting in? What do you think has triggered this?

## Section 6 – The degree of burden you face (10 minutes)

The Government is keen to understand the impact on employers of implementing the reforms – and so we're interested to know about the costs and other challenges that compliance with the reforms have incurred for [EMPLOYER].

- How much of your own time was involved in preparing for automatic enrolment?
- Who else's time was involved? What other internal resources did you use?
- Did you find that dealing with staff queries used up internal time/resource? How did you feel about that?
- Did The Pensions Regulator's Duties Checker reduce time or other costs in any way?
- Have you measured the resource that you have allocated, at all? Or did it get absorbed into your day job? How did you feel about that?
- Is [EMPLOYER] making use of a waiting period/'postponement' for any of your workers?
- How long is the waiting period, and who does it apply to?
- Can you tell me about that decision – how and why it was taken?
- And what financial outlays have you had to make, in order to set up automatic enrolment – aside from the cost of contributions?
- What did you need to pay for?
- Have you tried to measure the different costs involved – for example, the cost of payroll software, or using advisers? And what have you found?
- Were any of these needs – either for time or budget – unforeseen, or higher/lower than anticipated? Why was that?
- Have there been any issues relating to payroll or administrative systems or software?
- Did anything we have mentioned make it difficult for [EMPLOYER] to comply with automatic enrolment on time? Tell me about that.
- How do you plan to meet scheme running costs and compliance costs, once this initial settling-in period is over? (*only prompt if unclear: for example lower profits, or lower wage increases?*)
- **ASK ALL:** Has your wage bill increased as a result of the National Living Wage?
- (*If yes:*) Has this affected how easy or difficult it is to pay contributions to the automatic enrolment pensions scheme? How?

## **Section 7 – Awareness of ongoing duties (10 minutes)**

- And turning now to the cost of employer contributions: how do you expect this to change in the future?
- If increases in contributions mentioned:
  - How long have you been aware that this will happen? How did you become aware?
- If increases in contributions not mentioned:
  - How would you feel if the contributions you had to make to employees' pensions were to increase?
  - What about if the employee contributions were also to increase – would that change how you feel at all?
- [*Show them the visual aid (replicated in this report as Figure 5.1)*] **Ask all:**
  - How do you feel about these changes?
  - What impact will the new level of contributions have on you as an employer?
  - What about other employers – how do you think the increase will make them feel?
  - Thinking about your employees, what messages might help them see the importance of saving for their retirement?
    - ~ What other ongoing duties regarding automatic enrolment do you know you have as an employer?

### **If unaware of re-enrolment or enrolling new employees:**

- ~ If employees that opted out are still working for you in three years' time, you will have to automatically enroll them again. You also have to automatically enroll any new employees. How does this make you feel? Do you think the way you feel will change over time?

## **Conclusion (5 minutes)**

### **Additional comments**

- To finish our discussion, I'd like to summarise your experience so far.
- What would be your overall evaluation of these first weeks/months with automatic enrolment in place?
- What advice would you give to government about what employers in your situation need/want, in terms of information and support? How would that have helped you?
- Is there anything TPR – or DWP – could do to help employers to better prepare for and implement automatic enrolment?
- If you were to give tips or advice to other employers on preparing for, or implementing automatic enrolment, what would that be?
- Is there anything else that you would like to tell DWP about how automatic enrolment, or the reforms more generally, will affect your organisation?

## **Automatic enrolment: Qualitative research with small and micro employers**

Ask all:

- Occasionally, it is very helpful for us to be able to re-contact people we have spoken to, either to clarify certain issues, or to get a bit more detail where the information we are given is particularly interesting. Would you be happy for us to call you back if necessary?
- And finally, would you be happy for a colleague in the DWP research team to listen to a recording of this interview, purely for quality control purposes? If necessary: Just to confirm – it won't be circulated any more widely than the immediate project team.

## A.6 Discussion guide for workers remaining in the scheme

### Introduction and Warm-up (3 minutes)

#### Setting the scene/ground-rules

##### Introduce self and Breaking Blue

We're carrying out research on behalf of DWP, interviewing 80 workers across many different companies about their experiences of being automatically enrolled – both workers who have opted out and who have stayed in the scheme.

DWP wants to understand a bit more about how and why people are staying in the workplace scheme, or leaving it. I'm going to be asking some questions about your personal circumstances, so that we can put a face to the numbers, and understand why a workplace pension scheme might feel right for you.

**Ask for permission to record for our analysis purposes.** Recording will not be passed onto DWP or any other third party and will be destroyed after the project finishes.

Before we start our discussion, would you like to ask me any questions?

Please feel free to tell me anything. **Nobody will make any judgement about anything that you tell us – we want to understand your opinions and your experiences.**

#### About you

I'd like to start off by understanding a bit more about you.

- Tell me a bit about yourself. Who do you live with? Do you have a spouse/partner/family?  
**Are you paying rent, or a mortgage ...?**
- Can you tell me a little bit about your role at [employer]?
  - Do you work full-time (more than 30 hours per week) or part-time (fewer than 30 hours in a typical week)?
  - Do you work in a team? How many people do you work closely with?

### Section 2 – Planning for retirement (5 minutes)

I'd like you to tell me about any thoughts you've had about your retirement.

- To start, how much thought have you given to your retirement, would you say? Did you think about it a lot before being automatically enrolled?
- When would you like to retire?
- When do you think you will retire, in practice?
- Why do you think you'll retire at that point?
- [If not mentioned] Do you know at what age you'll be entitled to receive a state pension? How do your plans fit in with that?

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- What are your hopes for your retirement? Why do you think it might be important to save for your retirement? Do you have anything in place, to fund your retirement?

*[If respondent has nothing in place]*

- ~ Can you tell me if there are specific reasons for that? *[probe for: too early to think about it; will rely on partner's provision; reject pensions as a savings vehicle; need money now]*
- ~ Are you saving in another way?

*[If no – skip to end of this section and ask about 'your general views on saving for retirement']*

*[If yes]*

- Can you tell me a bit about what you've got in place?
- Interviewer: probe to understand whether they have pensions, other savings, or alternative provision, e.g. property. If respondent mentions using their property as income, check whether they are paying a mortgage or own their home outright.  
*Interviewer: check if not clear whether this is the respondent's own provision, or that of a partner/someone else.*
- How did you come to have the savings/provision that you have? Did anything specific trigger you setting them up?
- Do you have a broader plan for providing for your retirement – perhaps an idea about provision that you intend to put in place one day, but not yet? How does what you already have fit into that?
- Do you feel that what you've got at the moment will be enough? Can you tell me what you're basing that on?
- *[If not yet clear]* Are you going to make other provision? What might that be? When do you see yourself putting that in place?

*[If respondent has mentioned other ways of saving for retirement – not pensions]*

- You've mentioned getting an income from [another form of provision]. Do you prefer the idea of that to a pension? Why is that?

I'd like to ask a bit more about your general views on saving for retirement.

- To what extent do you feel it's your own responsibility to provide your own income after you stop work, versus it being up to your husband/wife/partner, the state, somebody else?
- And how much responsibility do you think your employer should have?
- And how does your employer feel about pensions? Is this something that it sees as important for its workers? Why do you say that?
- How far do you think you'll be supported by the basic state pension?

### **Section 3 – Your awareness of auto-enrolment (5 minutes)**

- Before you were automatically enrolled into a workplace pension scheme by [employer], had you ever been offered the chance to join a pension scheme? Tell me about that.
- How did you first find out that you were going to be automatically enrolled at your current employer?
- How did you hear? Did you first find out from your employer when people were told officially, or in another way – such as from your colleagues, friends or someone else?
- Do you remember seeing any advertising on TV or the radio, or anything in the press or online, telling you that automatic enrolment was coming? What do you remember seeing/hearing? What did you think about that?
- *Interviewer: if they saw the DWP adverts with ‘Workie’:* what did you think the message of these adverts was? How effective do you think they were? How did they make you feel? What did you think about the ‘Workie’ character?
- Firstly, I’d like you to tell me what your immediate reaction was. What did you understand by this term, ‘automatic enrolment’?
- What did you do, after you had heard that you were going to be automatically enrolled?
- And when your employer first told you, what did they say was going to happen?
- What form did the information take? Verbal, letter, an email, meeting, noticeboard?
- How carefully did you read it, or listen to what you were being told? We realise this is not always an interesting topic – it’s OK if you didn’t pay much attention!
- And what was your reaction – how did you feel about the idea?
- Did your employer give you any other information? When did you receive it? What did you think, when you received it?
- What did you see as the potential benefits of being enrolled?
- Does your employer contribute, as well as you?
- *[If aware that they receive an employer contribution, just make sure they know all the detail correctly by showing them the first part of the visual aid]* Did you consider your employer’s contribution as you made your decision to remain in? How important was this to you?
- *[If not aware of employer contribution]* Your employer has to make a contribution worth 1% of your earnings. Now that you know that, does it make you feel any differently about having remained in the scheme?
  - Are you aware of your exact monthly/weekly pay?
  - Are you aware of how much pension contribution comes out of your monthly/weekly pay?
- *Ask all:* How would you feel if the contributions you make to your pension were to increase?
- What about if the employer contribution also increased?  
*(If employee is unaware they will increase, inform them):*
- *[Show them the visual aid (replicated in this report as Figure 5.1)]* How do you feel about these changes? *[for each of employee/employer/tax relief changes]* How do you think this will change over time?



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- Will the new level of employee contributions mean that you are less keen to be in the workplace pension scheme than you were?
- What impact do you think the increase in contributions will have on your employer?

### Section 4 – Using information in your decision (5 minutes)

Let's talk about any sources of information that you have used, to find out anything about automatic enrolment.

- Can you tell me about any information that you have used? For example, from your employer, from the pension provider, just browsing on the internet, talking to people you know, leaflets, letters, emails you might have been sent ...

*For each sort of information, ask:*

- Was this something you were given at work, or something that you found independently?  
*If found independently: How did you hear about it?*
- How much attention did you pay to it – was it something you spent time reading/thinking about/listening to carefully, or did you just skim it? What kinds of things did it tell you? What did it help you to understand? How could it have done that better?
- Can you give me an example of something you found out from this information?
- How easy for people to understand, would you say it was? What made it easy/difficult to understand?
- Did you discuss this information with anyone else? Who? What did you talk about? [Probe, if not clear, on who they spoke to – e.g. colleagues, family; anyone they know who had opted out, etc.]
- How much trust did you place in their advice? Why do you say that?
- Did it play a part in your deciding to remain in the scheme? Why was that?
- Did you feel like your employer wanted you to stay in the scheme, or opt out? Or did they seem quite neutral?

*If respondent has not used any information sources, other than employer letter:*

- Did you think about finding any information yourself, independently of your employer?
- Did anything stop you from doing so, or did you just not get round to it? Or did you simply feel that you were satisfied with the information you had from your employer?
- What questions did you have? What kind of information would have been helpful in answering them?
- Where do you think you might have looked for information?
- All in all, did you have enough information to make the decision about whether to stay in/opt out confidently?
- Why do you say that?
- At the point where you made the decision to remain in the scheme, was there anything you wanted to know, but hadn't been told?

## **Section 5 – Your decision to remain in (5 minutes)**

Now I'd like to understand more about how you came to remain in your workplace scheme. First of all, I'd like to talk in a very general way about your attitudes towards pensions and saving for your retirement and your plans for the future, picking up on some of the things we talked about at the beginning of this interview ...

- What would you say has been your attitude towards pensions so far in your life?
- How much faith do you have in pensions?
- What would you say is behind your attitude? (*Interviewer – probe for any specific experiences or those of family, etc. or any specific beliefs or take on life that may influence decisions about pensions.*)
- And where do you hope to see yourself in the future? Will you be in the same job? Will you be earning more or less? How will your lifestyle have changed?

So, we have talked about your experience and what you thought of pensions, etc. Now let's talk about what actually happened ...

- Can you remember when you found out you would be automatically enrolled?
- And how did you hear about it/from who?
- And what were your first thoughts?
- Then what did you do? (Probe. Did you speak to your partner, friends, family? Did you seek further information, etc.?)
- How did these conversations/this information influence you?
- Was the decision to remain in something you thought about for a long time, or one you came to quickly, or even straight away? How long did it take?
- What would you say was your main reason for remaining in the scheme?
- Did you have other financial responsibilities that you took into consideration? Please tell me a bit about the role that played.
- [*If relevant from previous responses*] And what about your other savings for retirement – where did that fit into the decision?

[*If they have one*] How about any provision that your spouse/partner has, and that you might use in retirement?

*If not mentioned, probe on:*

- How about the fact that your employer was going to be involved with your pension arrangements – did that play any part in the decision?
- Did you find out how much this pension would have been worth at retirement?
- [*If not*] Did you try to find out? (Why not?)
- [*If so*] What was your reaction to that? How did this information feed into your decision?

**(Do not ask if the employer has confirmed that NLW does not affect them.)** Has your salary increased following the introduction of the National Living Wage in April 2016? (If yes:) Has this affected how easy or difficult it is to pay into a workplace pension? (If yes:) How?

What about auto-enrolment in the future ...

## **Automatic enrolment: Qualitative research with small and micro employers**

- How important do you think it will be for you to continue to remain enrolled? Why/why not?
- What about if you change jobs – you will be automatically enrolled at any new employer. How do you feel about that? How do you think the way you feel will change over time?

### **Section 6 – The process of remaining in (5 minutes)**

Once you had been enrolled ...

- Did anything you hadn't anticipated happen?
  - How straightforward was the process, would you say?
  - For example, were there any problems or issues, during the process? What were they?
  - Have you had something to confirm that you've been enrolled?
- If respondent does not feel they have sufficient provision

You mentioned earlier in our conversation that you don't think the provision you have in place will be enough to provide the income you want during your retirement.

- Do you plan on taking steps to increase your provision?
  - [If not mentioned] Might working for longer be one way in which you increase provision?
- When do you think you will start saving/saving more for your retirement – at what point in your life?
  - Do you think it could rest on something else happening, or being in place? (earning more, being married, having 2 incomes, having fewer outgoings?)
- How do you think you'll go about it?

### **Conclusion (2 minutes)**

#### **Additional comments**

- To finish our discussion, there are a few last things I'd like to ask you about.
- If you were to give advice to other people who are deciding whether to remain a member of their workplace scheme, or to opt out, what would you say? What should they be thinking about?
- Is there anything else that you would like to tell DWP about how being automatically enrolled will affect people?

As you know, we will not reveal your identity as someone who took part in the research.

- Occasionally, it is very helpful for us to be able to re-contact people we have spoken to, either to clarify certain issues, or to get a bit more detail where the information we are given is particularly interesting. Would you be happy for us to call you back briefly if necessary?

What would be the best number to reach you on?

- Would you be happy for a colleague in the DWP research team to listen to a recording of this interview, purely for quality control purposes? If necessary: just to confirm – it won't be circulated any more widely than the immediate project team.

## A.7 Discussion guide for workers opting out

### Introduction and Warm-up (3 minutes)

#### Setting the scene/ground-rules

##### Introduce self and Breaking Blue

We're carrying out research on behalf of DWP, interviewing 80 workers across many different companies about their experiences of being automatically enrolled – both workers who have opted out and who have stayed in the scheme.

DWP wants to understand a bit more about how and why people are staying in the workplace scheme, or leaving it. I'm going to be asking some questions about your personal circumstances, so that we can put a face to the numbers, and understand why a workplace pension scheme might not feel right for you.

**Ask for permission to record for our analysis purposes.** Recording will not be passed onto DWP or any other third party and will be destroyed after the project finishes.

Before we start our discussion, would you like to ask me any questions?

Please feel free to tell me anything. **Nobody will make any judgement about anything that you tell us – we want to understand your opinions and your experiences.**

#### About you

I'd like to start off by understanding a bit more about you.

- Tell me a bit about yourself. Who do you live with? Do you have a spouse/partner/family?  
**Are you paying rent, or a mortgage ...?**
- Can you tell me a little bit about your role at [employer]?
  - Do you work full time (more than 30 hours per week) or part time (fewer than 30 hours in a typical week)?
  - Do you work in a team? How many people do you work closely with?

### Section 2 – Planning for retirement (5 minutes)

I'd like you to tell me about any thoughts you've had about your retirement.

- To start, how much thought have you given to your retirement, would you say? Did you think about it a lot before being automatically enrolled?
- When would you like to retire?
- When do you think you will retire, in practice?
- Why do you think you'll retire at that point?
- *[If not mentioned]* Do you know at what age you'll be entitled to receive a state pension? How do your plans fit in with that?
- What are your hopes for your retirement? Why do you think it might be important to save for your retirement? Do you have anything in place, to fund your retirement?

## Automatic enrolment: Qualitative research with small and micro employers

*[If respondent has nothing in place]*

- Can you tell me if there are specific reasons for that? [probe for: too early to think about it; will rely on partner's provision; reject pensions as a savings vehicle; need money now]
- Are you saving in another way?

*[If no – skip to end of this section and ask about 'your general views on saving for retirement']*

*[If yes]*

- Can you tell me a bit about what you've got in place?
- Interviewer: probe to understand whether they have pensions, other savings, or alternative provision, e.g. property. If respondent mentions using their property as income, check whether they are paying a mortgage or own their home outright.

*Interviewer: check if not clear whether this is the respondent's own provision, or that of a partner/someone else*

- How did you come to have the savings/provision that you have? Did anything specific trigger you setting them up?
- Do you have a broader plan for providing for your retirement – perhaps an idea about provision that you intend to put in place one day, but not yet? How does what you already have fit into that?
- Do you feel that what you've got at the moment will be enough? Can you tell me what you're basing that on?
- [If not yet clear] Are you going to make other provision? What might that be? When do you see yourself putting that in place?

*[If respondent has mentioned other ways of saving for retirement – not pensions]*

- You've mentioned getting an income from [another form of provision]. Do you prefer the idea of that to a pension? Why is that?

I'd like to ask a bit more about your general views on saving for retirement.

- To what extent do you feel it's your own responsibility to provide your own income after you stop work, versus it being up to your husband/wife/partner, the state, somebody else?
- And how much responsibility do you think your employer should have?
- And how does your employer feel about pensions? Is this something that it sees as important for its workers? Why do you say that?
- How far do you think you'll be supported by the basic state pension?

### **Section 3 – Your awareness of auto-enrolment (5 minutes)**

- Before you were automatically enrolled into a workplace pension scheme by [employer], had you ever been offered the chance to join a pension scheme? Tell me about that
- How did you first find out that you were going to be automatically enrolled at your current employer?

## Automatic enrolment: Qualitative research with small and micro employers

- How did you hear? Did you first find out from your employer when people were told officially, or in another way – such as from your colleagues, friends or someone else?
- Do you remember seeing any advertising on TV or the radio, or anything in the press or online, telling you that automatic enrolment was coming? What do you remember seeing/hearing? What did you think about that?
- *Interviewer: if they saw the DWP adverts with ‘Workie’*: what did you think the message of these adverts was? How effective do you think they were? How did they make you feel? What did you think about the ‘Workie’ character?
- Firstly, I’d like you to tell me what your immediate reaction was. What did you understand by this term, ‘automatic enrolment’?
- What did you do, after you had heard that you were going to be automatically enrolled?
- And when your employer first told you, what did they say was going to happen?
- What form did the information take? Verbal, letter, an email, meeting, noticeboard?
- How carefully did you read it, or listen to what you were being told? We realise this is not always an interesting topic – it’s OK if you didn’t pay much attention!
- And what was your reaction – how did you feel about the idea?
- Did you see any potential benefits to being enrolled?
  - If you had stayed in the pension scheme, would your employer have been contributing, as well as you?
  - *[If aware that they would have received an employer contribution, just make sure they know all the detail correctly by showing them the first part of the visual aid]* As you’ll know, by deciding to opt out, you aren’t getting that contribution. Did you consider that, as you made your decision? Was something else more important to you?
  - *[If not aware of employer contribution]* To begin with, your employer would have had to make a contribution worth 1% of your earnings. If you had known that, might you have stayed in the scheme? Why/why not?
  - Are you aware of your exact monthly/weekly pay?
  - Are you aware of how much pension contribution would have come out of your monthly/weekly pay if you’d stayed in the pension scheme?
  - What about if your own contributions also increased alongside your employer’s ... how would you feel in that case?

*(If employee is unaware they will increase, inform them):*

- *[Show them the visual aid (replicated in this report as Figure 5.1)]* How do you feel about these changes? [for each of employee/employer/tax relief changes] How do you think the way you feel will change over time?
- Will the new level of employer contributions mean that you are more keen to be in the workplace pension scheme than you were when you opted out? Why is that?
- What impact do you think the higher level of contributions they have to make will have on your employer?

## **Section 4 – Using information in your decision (5 minutes)**

Let's talk about any sources of information that you have used, to find out anything about automatic enrolment.

- Can you tell me about any information that you have used? For example, from your employer, from the pension provider, just browsing on the internet, talking to people you know, leaflets, letters, emails you might have been sent ...

For each sort of information, ask:

- Was this something you were given at work, or something that you found independently?  
*If found independently: How did you hear about it?*
- How much attention did you pay to it – was it something you spent time reading/thinking about/listening to carefully, or did you just skim it? What kinds of things did it tell you? What did it help you to understand? How could it have done that better?
- Can you give me an example of something you found out from this information?
- How easy for people to understand, would you say it was? What made it easy/difficult to understand?
- Did you discuss this information with anyone else? Who? What did you talk about? [Probe, if not clear, on who they spoke to – e.g. colleagues, family; anyone they know who had opted out, etc.]
- How much trust did you place in their advice? Why do you say that?
- Did it play a part in your deciding to opt out? Why was that?
- Did you feel like your employer wanted you to stay in the scheme, or opt out? Or did they seem quite neutral?

*If respondent has not sought any information sources:*

- Did you think about finding any information yourself, independently of your employer?
- Did anything stop you from doing so, or did you just not get round to it? Or did you simply feel that you were satisfied with the information you had from your employer?
- What questions did you have? What kind of information would have been helpful in answering them?
- Where do you think you might have looked for information?
- All in all, did you have enough information to make the decision about whether to stay in/opt out confidently?
- Why do you say that?
- At the point where you made the decision to opt out of the scheme, was there anything you wanted to know, but hadn't been told?

## **Section 5 – Your decision to opt out (5 minutes)**

Now I'd like to understand more about how you came to opt out of your workplace scheme. First of all, I'd like to talk in a very general way about your attitudes towards pensions and saving for your retirement and your plans for the future, picking up on some of the things we talked about at the beginning of this interview ...

- What would you say has been your attitude towards pensions so far in your life?
- How much faith do you have in pensions?
- What would you say is behind your attitude? (*Interviewer – probe for any specific experiences or those of family, etc. or any specific beliefs or take on life that may influence decisions about pensions.*)
- And where do you hope to see yourself in the future? Will you be in the same job? Will you be earning more or less? How will your lifestyle have changed?

So, we have talked about your experience and what you thought of pensions, etc. Now let's talk about what actually happened ...

- Can you remember when you found out you would be automatically enrolled?
- And how did you hear about it/from who?
- And what were your first thoughts?
- Then what did you do? (Probe. Did you speak to your partner, friends, family? Did you seek further information, etc.?)
- How did these conversations/this information influence you?
- Was the decision to opt out something you thought about for a long time, or one you came to quickly, or even straight away? How long did it take?
- What would you say was your main reason for opting out of the scheme?
- Did you have other financial responsibilities that you took into consideration? Please tell me a bit about the role that played.
- [*If relevant from previous responses*] And what about your other savings for retirement – where did that fit into the decision?

[*If they have one*] How about any provision that your spouse/partner has, and that you might use in retirement?

*If not mentioned, probe on:*

- How about the fact that your employer was going to be involved with your pension arrangements – did that play any part in the decision?
- Did you find out how much this pension would have been worth at retirement?
- [*If not*] Did you try to find out? (Why not?)
- [*If so*] What was your reaction to that? How did this information feed into your decision?

**(Do not ask if the employer has confirmed that NLW does not affect them.)** Has your salary increased following the introduction of the National Living Wage in April 2016?



## Automatic enrolment: Qualitative research with small and micro employers

What about auto-enrolment in the future ...

- How important do you think it will be for you to opt back into your workplace pension at some point in the future? Why/why not?
- Did you know that if you're at the same employer in three years' time, you'll be re-enrolled automatically? ... And if you change jobs, you will be automatically enrolled at any new employer. How do you feel about that? How do you think the way you feel will change over time?

### Section 6 – The process of opting out (5 minutes)

Now I'd like to ask you about what happened when you actually went about opting out.

- What arrangements did your employer make, for people who wanted to opt out? For example, did you fill something in on paper, online, or in some other way? Tell me about that.
- Did anything you hadn't anticipated happen?
  - How straightforward was the process, would you say?
  - For example, were there any problems or issues, during the process? What were they?
  - Have you had something to confirm that you've been opted out? Have you checked your pay, to make sure no deductions have been made?
- *If respondent does not feel they have sufficient provision*  
You mentioned earlier in our conversation that you don't think the provision you have in place will be enough to provide the income you want during your retirement.
- Do you plan on taking steps to increase your provision?
  - [If not mentioned] Might working for longer be one way in which you increase provision?
- When do you think you will start saving/saving more for your retirement – at what point in your life?
  - Do you think it could rest on something else happening, or being in place? (earning more, being married, having 2 incomes, having fewer outgoings?)
- How do you think you'll go about it?

### Conclusion (2 minutes)

#### Additional comments

- To finish our discussion, there are a few last things I'd like to ask you about.
- If you were to give advice to other people who are deciding whether to remain a member of their workplace scheme, or to opt out, what would you say? What should they be thinking about?
- Is there anything else that you would like to tell DWP about how being automatically enrolled will affect people?

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