



Automatic enrolment: Qualitative research with small and micro employers

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Background

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,¹ and subsequently a second study in 2014 with medium-sized employers.² The research detailed in this report is the third study, commissioned in 2016 and focusing on small and micro employers.

Methods

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. Most of these 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

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

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

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.

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.

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).³ 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.

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.

³ Further information is available on TPR's website, at <http://www.thepensionsregulator.gov.uk/working-out-your-clients-costs.aspx>

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.

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.

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:

- 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.⁴ 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.

⁴ This is consistent with findings from DWP’s previous qualitative research with larger employers. See Wood *et al.* (2013) and Wood *et al.* (2015).

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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You can download the full report free from: <https://www.gov.uk/government/organisations/department-for-work-pensions/about/research#research-publications>

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