

Automatic enrolment opt out rates: findings from research with large employers

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Background

Millions of people in the UK are not saving enough for retirement. The legislative changes set out in the Pensions Act 2008, the Pensions Act 2011 and the packages of associated regulations aim to increase private pension saving in the UK. They form part of a wider pensions strategy 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. Workers will be eligible provided they are aged at least 22 and under State Pension age, and earn over £9,440 per year in 2013/14 terms. Minimum contributions of 8 per cent on a band of earnings (£5,668 to £41,450 per year in 2013/14) must be paid in respect of the member, of which at least 3 per cent must come from the employer. The automatic enrolment duties began in October 2012, starting with the largest employers.

Once fully implemented, automatic enrolment aims to transform the culture of saving, increasing the number of individuals newly saving or saving more in a workplace pension by around eight million, within a range of six to nine million, and increasing the amount that is being saved in workplace pensions by around £11 billion a year, within a range of £8 billion to £12 billion¹.

DWP is committed to fully evaluating the effects of the workplace pension reforms and set out its evaluation strategy in a report published in July 2011². One of the key factors that will affect actual participation levels and the impact of automatic enrolment on workplace pension saving is the number of workers who choose to 'opt out'³ after being automatically enrolled. To support the evaluation of the reforms, the Department commissioned research on opt out levels with large employers. This paper gives the results.

¹ Further details on the costs of additional contributions to individuals, employers and Government are set out in *Workplace Pension Reforms: digest of key analysis*. July 2012. DWP At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf

² *Workplace Pension Reforms Evaluation Strategy*, July 2011. DWP At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214545/rrep764.pdf

³ Workers who have been automatically enrolled have the right to opt out within the first month without any contributions being taken.

Methodology

The overall aim of the research was to evaluate the experiences of employers and workers during the first six months of automatic enrolment (between October 2012 and March 2013) with a particular focus on opt out rates. In practice the widespread use of postponement⁴ by employers meant that the sample window was extended by a month to ensure enough employers were included.

The data collected was primarily qualitative in nature, based on in-depth interviews with employers supplemented with the collection of management information on opt out levels, pension participation levels, pension schemes and characteristics of the workforce.

A sample of 50 employers with automatic enrolment duty start dates falling between October 2012 and April 2013 was taken using records from the Pensions Regulator. The sample aimed to achieve a spread of employer sizes, sectors and industries. Employers included in the sample ranged in size from 6,000 to 120,000 workers⁵ and broke down into sectors in the following way:

- 13 in the public sector
- 11 in financial services
- 6 in retail
- 5 in leisure
- 3 in manufacturing
- 12 in other services

It is important to note the analysis is not based on a fully representative sample of employers and the results are merely indicative of opt out and participation levels among the largest employers to go through automatic enrolment so far. The results cannot be applied to the whole population of employers particularly as medium and smaller employers will have different characteristics to larger employers such as lower existing participation levels in workplace pensions.

For the purposes of this analysis opt out refers to those workers who left the pension scheme within one month of the date they were automatically enrolled, referred to as the opt out window. This is distinct from those workers

⁴ Employers may choose to postpone the assessment of worker by up to three months. This is sometimes referred to as a waiting period.

⁵ The Pensions Regulator's monthly registration report showed that up to the end of April 2013 over 400 employers had met their automatic enrolment duties with over 500,000 eligible workers enrolled. The latest report is available at: <http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report-2013.pdf>

who decided to leave the scheme in subsequent months who are instead classified as having ceased active membership of the scheme.

Results

Of the 50 employers participating in the study, 42 provided detailed opt out data representing around 1.9 million workers. The remainder of employers provided estimates of opt out levels during the interview.

Of the 1.9 million workers represented in the data, around six in ten (61 per cent) were already members of a pension scheme before automatic enrolment and about a quarter (24 per cent) were automatically enrolled (around 460,000 workers). The remaining 15 per cent included: those not eligible for automatic enrolment; those on the payroll but not currently working; and others who could not be categorised for the research.

Opt out rates across all employers

Across all the public and private sector employers in the study the average opt out rate was 9 per cent⁶. Most individual employers had an opt out rate ranging between 5 per cent and 15 per cent of the workers they had automatically enrolled.

Across the 42 employers providing detailed data, it is estimated that overall participation in a workplace pension increased from 61 per cent to 83 per cent (from around 1.2 million workers to 1.6 million workers).

Before automatic enrolment began, evidence from the DWP's Attitudes to Pensions 2012 survey⁷ showed that seven in ten (70 per cent) eligible respondents thought they would 'definitely' or 'probably' stay in a pension scheme once enrolled, 15 per cent said they would 'definitely' or 'probably' opt out of the scheme, and 14 per cent said it would depend.

Factors influencing the level of opt out

The most important factor influencing the level of opt out was contractual enrolment⁸. Where this was already in place, many of those automatically

⁶ This is calculated by dividing the total number of workers opting out by the total number automatically enrolled.

⁷ DWP (2012), *Attitudes to Pensions: The 2012 Survey*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193372/rrep813.pdf

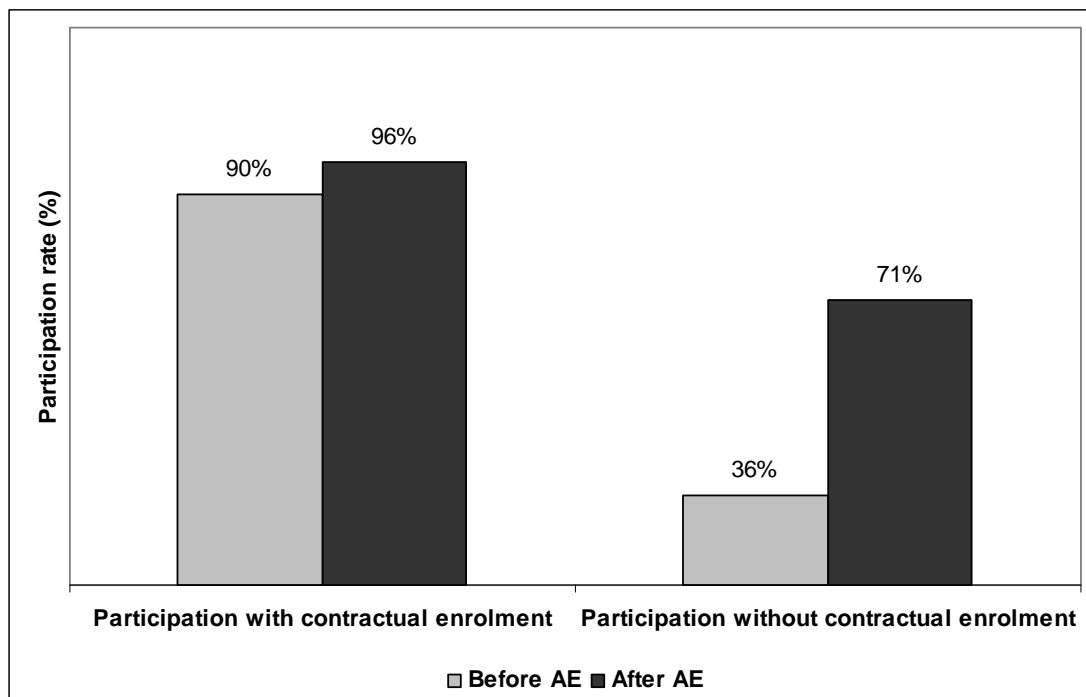
⁸ Contractual enrolment is where employers enrol workers into a workplace pension scheme via the terms of the worker's employment contract, including the authority to deduct pension contributions from the worker's salary. A worker put into a pension scheme by contractual

enrolled had opted out of workplace pension saving in the past and so were twice as likely to opt out again.

In 23 of the 42 employers contractual enrolment had already been in place; this was typically in the public sector or the largest private sector organisations such as banks. Here, because participation rates were already 90 per cent on average, only 7 per cent of workers were automatically enrolled. The average opt out rate among this small group was 16 per cent, with large variation across these employers. Despite the higher level of opt out, it is estimated that overall participation increased from 90 per cent to 96 per cent.

In the 19 employers where a workplace pension scheme was in place but workers had previously been required to actively join, nearly four in ten (38 per cent) were automatically enrolled and existing participation levels were relatively low (36 per cent). For these employers the average opt out rate was 8 per cent. It is estimated that participation in these employers increased as a result from 36 per cent to 71 per cent. Figure 1 illustrates the change in participation levels for employers with and without contractual enrolment.

Figure 1: Participation levels with and without contractual enrolment



Source: Automatic Enrolment - Qualitative research with large employers (DWP, 2013)

Notes:

1. Based on management information collected from 42 large employers between October 2012 and April 2013.
2. Employers in the sample represent around 1.9 million workers of whom 460,000 were automatically enrolled for the first time.

enrolment does not have the right to opt out as defined under the Pensions Act 2008. At: <http://www.thepensionsregulator.gov.uk/docs/contractual-vs-automatic-enrolment.pdf>

Limited data was collected from a small number of employers about the proportion of workers choosing to cease active membership of the pension scheme after the opt out window had closed. This mostly happened in the second and third month after being enrolled. Typically, the proportion of workers choosing to cease active membership after the opt out window was closed was around one fifth of the original opt out rate. For example, where opt out was 8 per cent, this increased to around 10 per cent by the end of the third month.

Characteristics of workers opting out

Opt out rates were higher among those aged 50 and over than for other age groups. In six employers that were able to provide full breakdowns by age group, opt out rates for those aged 50 and over were between 25 per cent and 50 per cent higher than those of other age groups. In one typical example, the under 30s opt out rate was 8 per cent, compared with 9 per cent of 30-49 year olds and 15 per cent of those aged 50 and over.

The opt out rate also appeared to be slightly higher in a small number of employers where employee contributions were introduced above the minimum⁹.

Other factors such as gender, salary, full time or part time status and level of employer contributions did not appear to have an impact on opt out.

Notes

The research was conducted between October 2012 and June 2013 by an independent research organisation, RS Consulting. Full findings from this research will be published in Autumn 2013 on the DWP's research pages at GOV.UK¹⁰.

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⁹ The initial minimum employee contribution is 1 per cent, rising to a minimum of 4 per cent from 2017.

¹⁰ At: <https://www.gov.uk/government/organisations/department-for-work-pensions/about/research>

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