

Employers' attitudes and likely reactions to the workplace pension reforms 2009: Report of a quantitative study

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Introduction

The workplace pension reforms are set out in the Pensions Act 2008 and Workplace Pension Reform Regulations 2010¹ and are planned to take effect from October 2012. When fully implemented, they will require employers to automatically enrol all eligible workers aged between 22 and State Pension age into a qualifying workplace pension scheme, unless the worker chooses to opt out. For workers who are eligible for automatic enrolment, employers may choose either to: enrol them into an existing pension scheme which meets or exceeds the minimum requirements set out in the reforms; amend their existing scheme to meet the qualifying standards; set up a new qualifying scheme; or enrol them into the National Employment Savings Trust (NEST).

Research aims

The 2009 Survey of Employers' Attitudes and Likely Reactions to the Workplace Pension Reforms (EAS 2009) was a nationally representative telephone survey of 2,550 private sector employers operating in Britain. Its purpose was to assess the extent of awareness of the forthcoming pension reforms among employers and to explore their attitudes and likely responses. Where possible, comparisons have been made with an earlier survey carried out in 2007.

¹ Workplace Pensions regulations are a package of regulations which includes: the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010, the Employers Duties (Implementation) regulations 2010 and the Employers' Duties (Registration and Compliance) Regulations 2010.

Key findings

- Less than half (44 per cent) of private sector employers had some awareness of the workplace pension reforms. This proportion has not changed since 2007.
- More than half (56 per cent) of all employers support the idea of automatic enrolment into a workplace pension scheme with an employer contribution of three per cent.
- Ninety per cent of employers currently contributing at least three per cent to their largest scheme expected to retain the same contribution rate for existing members after the reforms. Only six per cent expected to reduce contributions for existing members whilst four per cent expected to contribute more.
- Of employers currently providing a pension, 36 per cent expected to enrol non-members and new employees into their existing pension scheme, 19 per cent expected to enrol them into a new qualifying scheme and 15 per cent expected to use NEST. The rest either quoted multiple destinations or did not know where they would enrol non-members and new employees.
- More than a third of all employers (35 per cent) not offering pension provision expected to respond to the reforms by enrolling all employees into NEST.
- Employers in 2009 were less likely than those surveyed in 2007 to say that they would accommodate the increased costs by increasing prices (down from 23 per cent to 15 per cent) and more likely to say they would restructure their workforce (up from eight per cent to 16 per cent).

Awareness of the reforms

Larger employers were more likely to be aware of the reforms than smaller employers; almost three-quarters (73 per cent) of employees worked for an employer who had heard about the reforms.

Awareness was particularly low amongst employers with no workplace pension scheme and among those with only shell schemes.²

Attitudes towards the reforms

After being told what their obligations would be under the workplace pension reforms, the majority of employers (56 per cent) said that they considered them a good idea. However, this proportion had fallen since 2007 (64 per cent). More than one-third (37 per cent) of employers thought the reforms a bad idea – an increase on 2007 (26 per cent). The drop in the level of support for the reforms is to be expected given the data was collected in a time of economic uncertainty.

Half of all employees worked for employers who thought the reforms a good idea and one-third for employers who thought them a bad idea.

More than three-quarters (78 per cent) of employers who already contributed at least three per cent for employees in their largest workplace pension scheme considered that the reforms were a good idea. This compared with only 44 per cent of employers who contributed less than three per cent and 51 per cent of employers without a workplace pension scheme. Employers whose main reason for offering a pension was because it was a legal requirement were less likely to think the reforms a good idea than employers with other motivations for providing pensions.

² Schemes without any members among current employees – typically stakeholder pension schemes.

Preparations

Three-fifths (61 per cent) of all private sector employers had not thought about the reforms and a further quarter (26 per cent) had given them some thought, but not taken action. This left 14 per cent of employers who had done something to prepare for them.

Larger employers were more likely to have thought about the reforms or to have taken action than smaller employers, so that nearly two-fifths of employees (37 per cent) worked for organisations that had done some preparation. Only one-third (34 per cent) of those employers without any kind of existing pension scheme had either given the reforms some thought or done something to prepare for them.

Expectations about the impact of the reforms on total pension contributions

More than four-fifths (84 per cent) of all private sector employers reported that contributing three per cent to the pensions of all employees who did not opt out of provision would increase total pension contributions. Three-quarters of employees worked for organisations where the employer believed the reforms would increase total pension contributions.

Employers already contributing three per cent or more for employees in their largest workplace pension scheme were less likely to expect the reforms to increase total pension contributions than those making lower level, or no, pension provision. Nevertheless, over one-third (37 per cent) of employers already contributing three per cent or more anticipated that total pension contributions would rise.

Employers were most likely to consider absorbing the cost of increased contributions from profits or other overheads (31 per cent gave this response in 2009). When compared with the responses given in 2007, employers in 2009 were less likely to expect to respond

by increasing prices (15 per cent in 2009, compared with 23 per cent in 2007) and more likely to expect to respond by restructuring or reducing the workforce (16 per cent in 2009, compared with eight per cent in 2007). The percentage who considered that they would absorb the increase through lower wage increases was stable (18 per cent in 2009, compared with 14 per cent in 2007).

The intentions of employers with a workplace pension scheme

Intended provision for current members

Around three-quarters (74 per cent) of employers with a workplace pension scheme expected to keep all current members within their largest scheme. A further ten per cent expected to retain some current members within their largest scheme but to enrol the remainder into NEST. Smaller proportions expected to move all current members into a new qualifying scheme (five per cent) or to move them all into NEST (four per cent). Those employers currently making a contribution of exactly three per cent to their largest scheme, and those currently making no contribution, were the most likely to expect to set up new schemes following the reforms.

Just under one-third (31 per cent) of employers with a workplace pension scheme expected to make a contribution of exactly three per cent once the reforms are in place. A similar proportion (29 per cent) expected to make a contribution of (3.1-5.9 per cent) and two-fifths (40 per cent) expected to make a contribution of six per cent or more. Among those employers currently contributing at least three per cent to their largest scheme, 90 per cent expected to retain the same contribution rate for existing members after the reforms, whilst six per cent expected to contribute less than their existing rate and four per cent expected to contribute more.

Intended provision for non-members and new employees

The most common expectation among employers with a workplace pension scheme was that they would enrol all non-members and new employees into their existing pension scheme, but this option was cited by fewer than two-fifths (36 per cent) of all providers. A further fifth (19 per cent) expected to enrol all non-members and new employees into a new qualifying scheme, whilst around one-in-seven (15 per cent) expected to enrol them all into NEST, whilst eight per cent cited multiple destinations and 21 per cent were either unclear or did not know what their response would be.

Of employers with a workplace pension scheme, 88 per cent expected to keep at least some existing members in their current pension scheme, only 65 per cent of employers expected to enrol some non-members or new employees in this scheme.

Three-fifths (60 per cent) of employers with a workplace pension scheme expected to make a contribution of exactly three per cent for non-members and new employees, whilst one in eight (13 per cent) expected to contribute (3.1-5.9 per cent) and one in six (17 per cent) expected to contribute six per cent or more. Ten per cent of employers did not know at what rate they might contribute. In organisations which had at least some current members in their existing pension scheme, employers were slightly more likely to expect to provide only the minimum of three per cent for non-members and new employees (42 per cent) than they were to do so for their existing members (33 per cent).

Four-fifths (81 per cent) of employers currently contributing three per cent or more to their largest workplace scheme, said they expected to offer non-members and new employees their existing contribution levels or higher.

The intentions of employers without a workplace pension scheme

More than one-third (35 per cent) of employers without a workplace pension scheme expected to respond to the pension reforms by enrolling all employees into NEST. One in eight non-providers (12 per cent) said they would enrol some employees into NEST and some into a new qualifying scheme, whilst 15 per cent planned to set up their own qualifying scheme for all employees. Twenty-six per cent were unable to say what type of provision they would offer.

Regardless of enrolment plans, most employers without a workplace pension scheme (75 per cent) intended to contribute three per cent to the pensions of employees following the introduction of the reforms. A further six per cent intended to contribute (3.1-5.9 per cent), with six per cent intending to contribute six per cent or more. The remaining one in eight (13 per cent) were uncertain as to what they would contribute.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 808 9. Research Report 683. August 2010).

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

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