DWP Department for Work and Pensions

Employers' Pension Provision Survey 2011

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Background

This report describes the extent and nature of pension provision among private sector employers in Great Britain in 2011. It also considers employers' preparations for the forthcoming workplace pension reforms. The findings are based on a telephone survey carried out among a nationally-representative sample of 3,093 employers.

Methodology

The sample of private sector employers for the 2011 Employers' Pension Provision Survey (EPP 2011) was drawn from the Inter-Departmental Business Register (IDBR). Small businesses without employees were excluded, as was the public sector. The response rate at the main interview stage was 52 per cent.

The survey was undertaken by TNS-BMRB Social Research. Data analysis and reporting was undertaken by the National Institute of Economic and Social Research (NIESR).

The extent of pension provision in 2011

Around three in ten private sector organisations (31 per cent) made some form of pension provision for their employees in 2011. Some 19 per cent provided a stakeholder scheme, five per cent of firms provided group personal pensions (GPP), ten per cent made contributions to employees' personal pensions and three per cent provided occupational schemes. If one excludes contributions to employees' personal pensions), then 24 per cent of all private sector firms provided a workplace-based scheme.

The provision of pensions by private sector employers is becoming less common over time. In 2007, around two-fifths (41 per cent) of employers provided some form of pension scheme, with around one-third (33 per cent) providing a workplace scheme.

Among the 69 per cent of all private sector firms which did not provide pensions for their employees, the most common reasons given for non-provision were that the organisation was too small, that pension provision was too costly and that staff did not want the firm to provide pensions.

In 2011, around one-quarter (26 per cent) of private sector employees were either active members of a workplace-based pension scheme or belonged to arrangements whereby an employer made contributions to their personal pension. Twelve per cent of all private sector employees belonged to occupational schemes; seven per cent belonged to GPP schemes; five per cent belonged to stakeholder schemes; and one per cent had contributions made by their employer to their personal pension. A further 47 per cent of all private sector employees were eligible to join a workplace-based pension scheme but had not done so.

Scheme status and eligibility criteria

Around one-fifth (21 per cent) of private sector firms had some form of workplace-based pension provision that was open to new members in 2011. Thus among private sector employers providing some form of workplace-based pension scheme, most (88 per cent) had a scheme that was open to new members.

Half (50 per cent) of all occupational schemes were open to new members, compared with 95 per cent of stakeholder pension (SHP) schemes and 70 per cent of GPP schemes.

Almost one-quarter (24 per cent) of all occupational schemes were open to any employee of the organisation. A further 26 per cent were open, but restricted access to certain types of employee. The remaining 50 per cent of occupational schemes were closed to new members.

Around half (51 per cent) of all SHP schemes were open to all employees. A further 44 per cent restricted access to certain types of employees, while five per cent were closed to new members. For GPP schemes, almost one-quarter (24 per cent) were open to all employees, while 46 per cent restricted access to certain groups of employees. The remaining 30 per cent of GPP schemes were closed to new members.

The most common means of restricting eligibility – irrespective of scheme type – was to use tenure-based criteria, although waiting periods rarely exceeded one year.

Employer contributions

Almost one-quarter (24 per cent) of private sector employees in 2011 belonged to a workplace pension scheme that attracted an employer contribution.

Across all active members of occupational schemes, the average employer contribution received was 13 per cent.

In almost three-quarters (73 per cent) of SHP schemes with at least one active member, employers were contributing for at least some employees. The mean contribution rate, averaged across all members, stood at six per cent of pay.

In the majority (83 per cent) of GPP schemes, employers were contributing for at least some employees. The mean percentage employer contribution rate, averaged across all members, was also equal to six per cent of pay.

There were no statistically significant changes in these average percentage contributions when compared with those reported in EPP 2009.

Expected impact of the forthcoming workplace pension reforms

Under the workplace pension reforms, employers will be required to automatically enrol all eligible workers into a workplace pension scheme, unless the worker chooses to opt out. Employers will also be required to make a minimum contribution into the scheme.

In 2011, just over half (53 per cent) of employers were aware that the reforms would require them automatically to enrol eligible employees into a qualifying scheme. Around one-quarter (27 per cent) were aware of the requirements regarding minimum contribution rates. Awareness of both aspects was much higher among larger employers.

All employers, regardless of their awareness of the reforms, were asked to choose from a list of four statements that best described their preparations for the reforms. Around half (51 per cent) had ‘not thought about them at all’. A further two-fifths (37 per cent) had ‘thought about them but not done anything yet’, while just under one in ten (eight per cent) had ‘had informal discussions’. Three per cent had ‘put a plan in place to comply with the reforms’. This last proportion was much higher among larger employers – one-quarter (25 per cent) of employees worked in firms that already had a plan in place.

Almost three-quarters (74 per cent) of firms expected their total pension contributions to increase as a result of the minimum contribution required from employers. All respondents, regardless of whether they thought the reforms would lead to an increase in their total contributions, were asked what actions their organisation would take if the reforms did lead to an increase. Employers stated they were most likely to deal with any increase by absorbing this through a reduction in profits (25 per cent) or as part of other overheads (22 per cent).

Almost one-sixth (15 per cent) of firms said they would wait until the deadline before putting the necessary arrangements in place to comply with the reforms, with a further fifth (19 per cent) planning to do so just before the deadline. Around one in ten firms (11 per cent) planned to have the necessary arrangements in place six months or more ahead; this proportion increased to half among firms who currently contributed six per cent or more to their largest workplace scheme.

Likely enrolment destinations and contribution rates following the workplace pension reforms

Among employers who already offered a form of workplace pension provision in which at least some employees were participating, the majority (60 per cent) planned to keep all current members (of their largest or only scheme) in their existing scheme. Six per cent planned to enrol all current members into National Employment Savings Trust (NEST), while three per cent planned to enrol all current members into a new qualifying scheme. A further 12 per cent planned to use a combination of these schemes; almost one-fifth (19 per cent) did not know what scheme they were likely to use for current members.

Only 49 per cent of such pension-providing employers said that they would use their existing scheme for all non-members and new employees; in contrast, NEST was a more popular option with 19 per cent saying that they would enrol all non-members and new employees into such a scheme. Five per cent planned to use a new qualifying scheme for all non-members and new employees. Eight per cent planned to use a combination of schemes; almost one-fifth (19 per cent) did not know what scheme they were likely to use.

- Almost half (45 per cent) of firms with no current workplace pension scheme indicated that they would enrol all employees into NEST. A further 11 per cent planned to set up their own qualifying scheme, while five per cent planned to use a combination of both. This left a substantial proportion (39 per cent) that did not know what type of scheme they were likely to use in response to the reforms.
- Two-fifths (39 per cent) of employers with an open workplace scheme expected to retain at least one of their schemes after the reforms without using it as a destination for automatic enrolment.
- On the basis of the intentions expressed by employers in the survey, one would currently expect at least ten per cent of private sector employees to be receiving a contribution of over six per cent of salary once the reforms have been implemented. One would expect at least 16 per cent to be receiving a contribution of between 3.1 and 6.0 per cent, and one would expect at least 40 per cent to be receiving the minimum contribution of 3.0 per cent of salary. Each estimate is a lower-bound since employers did not provide an expected contribution rate for around one-third (34 per cent) of all private sector employees. There is thus still a substantial degree of uncertainty in respect of employer contributions.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 908523 72 3. Research Report 802. July 2012).

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

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