



Automatic enrolment: Experiences of workers who have opted out – a qualitative research study

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Summary

This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), to evaluate workers' experiences of automatic enrolment. In particular, it sought to understand the characteristics and motivations of those who decided to opt out of or leave their workplace pension after being automatically enrolled.

Background

Automatic enrolment is a response to some of the challenges facing the UK pensions system, and ultimately to the issue of millions of individuals in the UK not saving enough for their retirement. Automatic enrolment is being staged in between October 2012 and February 2018, starting with the largest employers. DWP estimates that around 10 million workers will have been automatically enrolled into a workplace pension scheme by February 2018.¹ Once fully implemented, automatic enrolment aims to increase 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.

¹ DWP (2013), *Review of the automatic enrolment earnings trigger and qualifying earnings band for 2014/15: supporting analysis*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266348/review-of-ae-earnings-trigger.pdf

This research was designed to evaluate the experiences of workers who had been automatically enrolled into a workplace pension scheme by employers with staging dates between October 2012 and April 2013, but had subsequently opted out or left the scheme. As the first employers to stage, these were mainly employers with at least 6,000 workers. The research formed part of a wider study, which assessed the impact of automatic enrolment on both employers and workers, the results of which are discussed in a separate report.²

Scope of the research

The research consisted of 50 qualitative in-depth interviews with workers who had been automatically enrolled by their employer, and had later opted out of the scheme within the opt-out period.³ These included a small number of cases where the worker left the scheme after the opt-out period had ended.

² DWP (2013), *Automatic enrolment: Qualitative research with large employers*. Available from: <https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851>

³ Every worker who is automatically enrolled into a workplace scheme has the option to opt out of it during a set period of time immediately after enrolment. The length of this period of time, known as the 'opt-out period', is specified by legislation. For the vast majority of workers, the opt-out period is one month.

Key findings

Workers broadly agreed with the Government's aim of using automatic enrolment to encourage people to save more for their retirement. It was widely accepted that they were, to a large degree, personally responsible for funding a self-defined level of comfort in their retirement.

The workers interviewed fell broadly into six types, which are described below. The study included workers – spread evenly across the six types – who voiced some degree of personal dislike of pensions as a savings vehicle. Only rarely was this dislike expressed spontaneously, or strongly enough to be considered as one of the worker's main motivations for opting out.

Workers instead chose to opt out according to a variety of motivations stemming from their personal circumstances. While most workers cited several, often interdependent, motivations for their decision, there were six main types of worker who opted out. We have defined these types according to their main motivation for opting out, as follows:

Type 1: Workers concerned about affordability

Typically, these were workers with a personal income of less than £20,000, and in their 20s and 30s. These workers felt that their income was almost entirely accounted for by essential expenditures such as paying rent, household bills and the cost of raising children. Some cited recent rises in their outgoings, while others had experienced a sudden fall in income, for example, owing to redundancy. Most workers in this type had few or no savings, but wanted to begin saving soon. However, very few had concrete or immediate plans to do so.

Type 2: Workers who had other financial priorities

Workers in Type 2 tended to be aged over 30. Unlike Type 1, these workers were not so much driven by necessity, as by a conscious

decision to prioritise other outgoings. These other expenditures were often long term, for example, childcare or upgrading their home, and gave these workers greater flexibility in planning ahead and choosing how to manage their finances. Many of these workers were already investing in other savings vehicles. Those who were not, planned to begin saving for retirement soon.

Type 3: Workers who had made other provision

This type tended to be older, with most in their 50s or 60s, and to have higher incomes. They had invested in a range of different savings vehicles, with most having more than one savings product in place. Typically, these workers expected to rely principally on another workplace pension or property in retirement, while some had a private pension. Some of these workers felt that they had enough provision, while others said they wanted or needed to save more. For most, the fact that they had an alternative savings vehicle was the overriding factor when considering whether to remain in the workplace scheme following automatic enrolment: if they wanted to save more, they would use these alternative methods to do so.

Type 4: Workers with insufficient time to build up pension savings

Workers in this type were typically aged over 50, and felt that they did not have enough time left before retirement to build up a worthwhile pension with their current employer. Most had vague plans to retire within the next three to five years, while a few had concrete plans to retire in the next year or two. A small number were receiving a pension while continuing to work. Most workers in this type already had other savings in place that they planned to use for retirement. A few had little or no savings, but perceived the contribution rate to be too low to accumulate a substantial amount within their given time constraints.

Type 5: Workers who anticipated imminent changes to their employment situation

These workers were usually aged under 50, and represented a wide range of personal incomes. They usually opted out because they expected to leave their current employer in the near future: either of their own volition; or because they were on a temporary contract. Most were put off by the perceived inconvenience of leaving a small pension pot in one place before beginning their main pension with a future employer. A few were aware that their employer also offered another pension with a more generous contribution, for which they were already, or hoped soon to become, eligible. A small number had already begun putting their plans to leave their employer into motion.

Type 6: Workers who perceived the contribution rate as being too low

This type felt that the contribution rate for the automatic enrolment scheme was too low for them to build up an attractive return, regardless of how long they paid into it. These workers were usually aged over 40 and earning over £20,000 a year. Like Type 4, they were often comparing the pension to alternative savings products that they had bought or could buy.

Individual experiences of opting out

The majority of workers had become aware of automatic enrolment through the Government's media campaign, or through news reports. Most had a positive impression of the media campaign, but very few paid much attention to these early reports. It was common for workers to assume initially that they would not be automatically enrolled, perhaps due to their type of contract, or the fact that they had alternative provision in place.

Most workers reported receiving an official letter or email from their employer, with some also describing articles on their organisation's intranet, noticeboards, or face-to-face

presentations. The official communications were typically described as being easy to understand, although many workers also admitted not paying a lot of attention to them, as they had already made up their minds to opt out.

Some workers discussed the decision to opt out with their partner, but many were impatient to opt out as soon as possible. Workers often suggested that it was a waste of their employer's time and money to enrol them, rather than allowing them to decline preemptively. Only a few workers sought further information, usually going on line to look at Government or providers' websites.

Most workers found the process of opting out straightforward. They were able to successfully complete an on-line form, and report a confirmation and a refund of contributions if one was due. Others filled in a paper form, or telephoned the pension provider. A few had difficulties understanding how to opt out, or had technical difficulties with the on-line form. Most workers received confirmation of their opt-out request, or had checked their payslips to confirm that no deductions were taken, or had been refunded. A few had not yet received confirmation, often because they had only opted out recently. A small number had to wait a long time, or make several attempts to have their decision to opt out successfully acknowledged.

Many workers were not aware that they would be re-enrolled in three years' time. Nearly all were certain that they would opt out again, and many were irritated that their initial opt-out would not be taken as their final decision.

Attitudes toward saving for retirement

Most workers were aware that an ageing population was creating a growing financial burden on the State, and felt that it was important to take personal responsibility for providing the lifestyle they wanted in retirement. However, many workers also perceived automatic enrolment as coercing them into doing something they did not want to do. Most were somewhat annoyed that

they had to take active steps to opt out, while a few disliked feeling that the Government was 'interfering' in their private affairs.

Most workers felt that they should take responsibility for providing their own retirement income. A few suggested that there was still some role for the State in supporting those unable to support themselves. However, many admitted not knowing what the State Pension was currently worth, and the vast majority speculated that it would only provide a minimal level of support.

In this context, most workers wanted to make provision to secure what they described as a higher level of comfort in retirement, although none indicated having settled on any quantified target. Most expressed willingness to be flexible about their retirement date, and thought they might retire later, in order to generate more financial provision, or simply because they enjoyed working. Some felt that retirement was important for their health and wellbeing, and were more fixed on retiring at or around the State Pension age, sometimes due to concerns about current or future health conditions.

Workers often described their retirement date as not being fully under their control. Although most said that they would not rely primarily on the State Pension, many saw themselves retiring at the time they started to receive it.

For many workers, uncertainty about the future made it difficult for them to know how much

they needed to save, or whether what they had would be enough. This attitude was voiced by a wide variety of workers, regardless of age or the amount of provision they had in place. Some said that they did not know how long they would live, how their future health and career would develop, or how much their assets would be worth at retirement.

Most workers also found it difficult to say how much responsibility their employer should assume for funding their retirement plans. Many worked for an employer who had not previously offered a pension to the majority of their workforce: these workers were usually content with being paid a wage. Others had received a pension from a previous employer, and often perceived this employer to have provided their main career, whilst having relatively low expectations of their current employer. Other workers anticipated their main career to be at a future employer, and so similarly did not have high expectations from their current employer in terms of retirement provision.

Most workers were happy with the way their employer handled the implementation of automatic enrolment, although most had a limited understanding of the extent of their employers' responsibilities. They typically suggested that automatic enrolment was a good idea for anybody who did not face the specific barriers that they did, personally, to remaining in a workplace pension scheme.

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The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 910219 05 8. Research Report 862. February 2014).

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

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