



# Automatic enrolment: Qualitative research with large employers

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This report provides the findings of a study commissioned by the Department for Work and Pensions (DWP), to evaluate the impact of automatic enrolment on employers and their organisations. In particular, it sought to measure opt-out rates and understand their impact on pension scheme participation.

## 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. Once fully implemented in February 2018, DWP estimates that around 11 million workers will have been automatically enrolled into a workplace pension scheme.<sup>1</sup>

Between October 2012 and March 2013, just under 300 of the largest employers in the UK were required to introduce automatic enrolment, and assigned a month within this period as their 'staging date' by The Pensions Regulator. This research was designed to evaluate the experiences of this group of employers, exploring the process of preparing for automatic enrolment; their approach to selecting a pension scheme to use for different types of worker; the

procedural, administrative and communications challenges employers faced; and worker opt-out rates, the types of workers that opt out, and their reasons for opting out.

Employers' widespread use of postponement meant that the number who actually began to automatically enrol workers in the course of their staging month was often much lower than the number scheduled. Consequently, the timetable for research was extended by one month, to include the approximately 300 additional employers with April staging dates and thereby ensure that enough employers were included to allow detailed qualitative analysis.

## Scope of the research

The research consisted of three strands:

- 50 qualitative depth interviews with employers, ranging in size from over 120,000 workers in October 2012, to 6,000 workers in April 2013. A small number of smaller employers, who had moved their staging date forward, were also included;
- administrative data provided by these employers, including details of their pension arrangements prior to automatic enrolment, and details of the numbers and types of workers who opted out after being automatically enrolled;

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<sup>1</sup> DWP (2012). *Workplace Pensions Reform: estimates of the number of employees automatically enrolled by May 2015*. At: [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/222946/WPR\\_Staging\\_Profile\\_updated\\_250113.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/222946/WPR_Staging_Profile_updated_250113.pdf)

- qualitative depth interviews with 17 workers who had chosen to opt out of these employers' schemes following automatic enrolment.<sup>2</sup>

## Key findings

The employer interviews indicated some key points of advice for others implementing automatic enrolment. These are discussed below, but can broadly be summarised as:

- beginning preparations far in advance of the staging date;
- including employee data cleansing in preparations;
- not overburdening workers with information;
- streamlining and simplifying processes and communications wherever possible;
- taking opportunities to learn from other employers.

## Preparing for automatic enrolment

The employers included in this research consisted primarily of the largest workforces in the UK. As a result their circumstances may be somewhat different to those of smaller employers that will need to begin automatic enrolment in the coming years. Nearly all of these employers already had some kind of pension provision in place prior to automatic enrolment, and nearly all had a dedicated pensions department.

The vast majority of employers had started concrete preparations for automatic enrolment at least a year in advance; in some cases this was closer to two years. The task of implementing automatic enrolment was expected to be a considerable one, which they typically approached as they would any government directive requiring systematic change: usually, preparations involved developing a strategy that would be signed off at board level.

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<sup>2</sup> DWP will publish a separate report with findings from all 50 interviews with workers from these organisations. It will include the 17 interviews already completed and used in this report.

While the quantity of internal resource was estimated and planned for in advance, many employers found it difficult to anticipate the full range of issues that would occur during the course of their preparations.

## Selecting a pension scheme

Since nearly all employers had pension provision already in place for at least some workers, a natural starting point in selecting a pension provider was to look at their existing pension scheme or schemes and assess the viability of extending these to the new population.

Some employers had only made a pension available to a minority of office-based workers before automatic enrolment, and now had to provide a pension for a larger population of manual workers. In such cases, employers generally decided from the outset that they wanted to find a pension solution for the new population that would be relatively quick and inexpensive to set up and administer.

Where employers were automatically enrolling new groups of workers for the first time, the majority had decided to set their default contributions at the minimum level required under the reforms. However, the vast majority of schemes in place before automatic enrolment also offered higher levels of 'matched' contributions, if the worker also chose to contribute more. This offer was usually extended to the automatically enrolled population.

## Use of postponement

Just under half of the employers interviewed had used postponement (also known as a waiting period), more commonly in the private sector than in the public sector. They cited a number of reasons for this decision. For those with large workforces not previously enrolled in a workplace pension, the cost of ongoing employer contributions was sometimes substantial enough for them to want to delay taking on that cost for as long as possible.

Another common reason for using postponement was to avoid enrolling workers who might not stay with that employer for long, for example casual, short-term or transient workers.

## **Impact of automatic enrolment on pension scheme participation**

Forty-two out of the total 50 employers who took part in this research were able to respond to our detailed data request regarding their pension schemes and opt-out rates. Their data represented a combined total workforce of 1.9 million workers.

Of these workers, 61 per cent were already participating in a pension scheme before automatic enrolment came into force. About a quarter, or 24 per cent, were automatically enrolled – this represents about 460,000 individuals. The remaining 15 per cent included workers who employers reported as not being eligible, or whom they could not categorise.

Across the 42 employers, the overall opt-out rate was nine per cent in the first month after automatic enrolment began. There was some variation in opt-out rates, which ranged from five per cent to 15 per cent across the majority of employers. As a result of automatic enrolment, pension scheme participation rates increased from 61 to 83 per cent overall.

A major factor in determining variations in opt-out rates was the use of contractual enrolment before automatic enrolment began. Under contractual enrolment, workers automatically become a member of the organisation's pension scheme as part of their employment contract, unless they opt out. The 23 employers who already contractually enrolled workers reported higher scheme participation rates before automatic enrolment: 90 per cent on average. A further seven per cent were automatically enrolled, with the remainder not eligible for automatic enrolment. It is likely that at least some of those enrolled had already decided against joining, or opted out of, their employer's pension scheme in the past. This may explain the

relatively high opt-out rate of 16 per cent that was reported by this group of employers. The overall impact of automatic enrolment on participation rates was therefore smaller: an increase from 90 per cent to 96 per cent on average.

Across the remaining 19 employers where contractual enrolment had not been in place, participation rates before automatic enrolment were lower: 36 per cent. The proportion of eligible jobholders to be automatically enrolled was, therefore, higher within this group: 38 per cent. Here, the opt-out rate was eight per cent. The impact of automatic enrolment on pension scheme participation rates was therefore substantial, and it increased from 36 per cent to 71 per cent across these employers.

## **Factors influencing opt-out rates**

The primary demographic characteristic that appeared to have a consistent impact on opt-out rates was age. More specifically, the data indicated that opt-out rates were highest among the 50+ age group, who were between 1.25 times and twice as likely as other age cohorts to opt out. Other characteristics, such as income, level of employer contribution and part-time or full-time status did not have a consistent impact on opt-out rates. Individual circumstances appeared to have a far greater influence. These included:

- individual financial constraints and concerns over the affordability of contributions, due, for example, to supporting a family, paying a mortgage, or servicing debt;
- issues around particular career paths and/or plans, particularly where workers knew they would work for their current employer only a little while longer;
- the age or lifestage of workers, particularly among older workers, who felt that retirement was already too close to start a long-term pension savings plan;
- the existence of alternative retirement provision.

## **Challenges in implementing automatic enrolment**

Many employers found that they needed to prepare for automatic enrolment by developing effective data management systems to manage large and complex processes such as worker assessments. Some also needed to develop interfaces that allowed seamless data flows between the relevant parties and databases, for example between internal payroll and Human Resources (HR) operations, and external pension providers.

The scale and complexity of these data challenges meant that employers had to mobilise considerable internal resource in order to prepare their systems for implementation. Where employers had outsourced the development of new data systems to an external provider, they often highlighted the amount of effort they had needed to put in themselves, in order to arrive at a final product.

Commonly reported procedural issues included the compatibility of data formats or system interfaces for transferring data between parties. Secondly, many employers found the process of assessing whether workers were eligible for automatic enrolment or not a major challenge – particularly where the employer had large numbers of transient workers or workers with fluctuating earnings patterns. For example, some employers reported problems with missing or outdated information in their staff databases.

## **Information sources used by employers**

All employers reported that they had consulted the official detailed guidance issued by the regulator in preparing for automatic enrolment. While employer feedback on the guidance was generally positive, the research did indicate a number of areas in the legislation that some employers found to be unclear. In these cases, employers typically contacted the regulator's helpline to ask for more information or to double-

check whether their suggested approach would be compliant with the legislation.

Sometimes, employers reported having to make their own judgement about how best to comply with the spirit of the legislation. Some approached this by documenting every decision themselves, while others responded to perceived instances of ambiguity by logging every decision directly with the regulator.

The full range of information sources drawn upon varied between employers, but typically also included their lawyers and current pension provider. Many employers also attended conferences, seminars or workshops run by employee benefits consultants (EBCs) or other industry stakeholders such as payroll providers. Those employers who were already clients of an EBC or a payroll or software provider also consulted with these providers.

## **Communicating automatic enrolment to workers**

Most of the employers in this study had adopted a systematic approach to developing a worker communications strategy, planned out many months before their staging date.

Some employers decided to launch a comprehensive multi-media communications campaign to inform their workers about automatic enrolment. They tended to stagger communications in such a way that workers would receive a regular flow of information over a prolonged period of time. These included information on the company intranet, printed materials, staff newsletters and posters in communal areas, staff workshops and seminars, and letters, emails, and payslip messages imparting tailored information to specific groups of workers at particular points.

Other employers adopted a more restrained, low-profile communications approach. This was typically the case among those employers where large proportions of workers already had a workplace pension. Information was kept

low-key – for example, limited to just one email or a notice on payslips – and was often timed relatively close to the staging date.

All employers considered the various letter templates on the regulator’s website for their worker communications. Employers often regarded these templates as a ‘safety net’ to ensure that their communications were compliant with the legislation.

Overall, most employers were satisfied that their communications campaigns had achieved what they set out to do, i.e. inform workers about automatic enrolment without confusing them with too much technical detail. In particular, many employers had anticipated large volumes of queries immediately after implementation, when workers received their first official letters: in fact they tended to report very low numbers of queries.

## **Next steps: Registration and ongoing duties**

Once employers have implemented automatic enrolment they are required to tell the regulator how they have ensured compliance with their duties. This process is known as registration. Some of the employers who participated in this research had already completed registration, and in most cases employers found it fairly easy. Virtually all employers expected that the ongoing administration of their automatic enrolment schemes would require relatively little work. This said, some employers reported that the ongoing administration of their automatic enrolment schemes would still be a substantial challenge, particularly if they employed a transient workforce, or their workers had fluctuating earnings.

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The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 909532 81 6. Research Report 851. October 2013).

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

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