

Supporting automatic enrolment: information on small and medium employers

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Introduction

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.

As part of the reforms, the National Employment Savings Trust (NEST), a trust-based occupational pension scheme, has been set up with a public service obligation to accept any employer (and qualifying jobholder) that wishes to use the scheme.

In November 2012 the Department launched [a call for evidence on the impact that two of the constraints on NEST](#) – the annual contribution limit (currently set at £4,500 per year) and the restrictions on transfers of pension funds in to and out of NEST – are having on employer choice and whether they work as the policy intended. To support this call for evidence the Department commissioned research with small and medium employers. This paper gives the results.

Methodology

The tables presented here are results from three questions placed by DWP on the [IFF Research Omnibus Survey](#).

IFF Research carries out a monthly nationally representative omnibus survey of small and medium employers (SME). The survey uses a random sample of 500 SMEs across a wide range of industries and sectors. Interviews are conducted with senior business decision makers by telephone. The sample is purchased from Dun and Bradstreet to be representative of UK SMEs by sector and also in terms of the proportion of SMEs in each of the 4 countries of the United Kingdom. It is broken down as follows:

- Sole traders: 100 interviews
- Micro (1-9): 150 interviews
- Small (10-49): 150 interviews
- Medium: (50-249): 100 interviews

The results from SME Omnibus are weighted to be representative of the UK population of SMEs. The DWP automatic enrolment data was weighted using

The DWP SME Omnibus sample only included SMEs with employees (ie sole traders were excluded) therefore the DWP sample was 400 as opposed to the usual SME Omnibus sample of 500.

[DWP estimates](#) that there are around 1.2 million small and medium sized employers in the UK.

Results

Table 1 shows that of all small and medium sized employers, 70 per cent expect to make minimum contributions for all their workers, with medium sized employers (50-250 employees) more likely to make higher contributions than smaller firms.

Table 2 shows that 83 per cent of all SMEs are very likely or quite likely to use the same pension scheme for all their workers. There was little variation by employer size. The survey did not ask whether an employer currently had pension provision. However, the likelihood of an employer currently offering pension provision increases with employer size. For example, [in 2011](#), 13 per cent of private sector employers with 1-4 employees offered some kind of workplace pension scheme compared with 82 per cent of employers with 50-99 employees.

Table 3 shows the proportion of the workforce earning more than £60,000 per year. £60,000 represents the point at which a worker might breach the NEST annual contribution limit, assuming minimum contributions of 8 per cent are paid on all earnings (a contribution equivalent to £4,800 per year, £300 more than the NEST annual contribution limit). A worker earning in excess of £60,000 but paying minimum contributions as set out in legislation (ie on the qualifying earnings band) would make contributions of £2,860 per year. The table shows that 87 per cent of SMEs employ no one earning more than £60,000 per year.

Table 1: Percentage of employers expecting to make contributions of more than the minimum 3 per cent on a band of earnings by employer size

Expect to contribute above the minimum for:	<i>Percentage</i>			
		Employer size		
	All	1-9	10-49	50-250
All workers	13	13	16	20
Some workers	16	16	19	18
None	70	71	65	62
Total	100	100	100	100
base	400	150	150	100

Table 2: Percentage of employers likely to use the same pension scheme for all their workers by employer size

Likelihood of using a single scheme for eligible workers	<i>Percentage</i>			
		Employer size		
	All	1-9	10-49	50-250
Very likely	63	63	68	67
Quite likely	20	20	21	18
Not very likely	6	6	3	5
Not at all likely	11	11	8	9
Total	100	100	100	100
base	400	150	150	100

Table 3: Percentage of employers who have workers earning more than £60,000 per year by employer size

Proportion of workforce earning over £60,000 per year	<i>Percentage</i>			
		Employer size		
	All	1-9	10-49	50-250
None	87	92	68	37
1-10%	8	4	22	56
More than 11%	5	4	8	7
Total	100	100	100	100
base	400	150	150	100

The results shown here are broadly consistent with other research with employers undertaken by the Department. Results from the 2011 [Employers' Pension Provision Survey](#) showed that on the basis of the intentions expressed by employers in the survey it was expected that at least 40 per cent of all employees would receive the minimum contribution of 3 per cent of salary. This represented a lower bound since employers did not provide an expected contribution rate for around one third of all private sector employers. The figures were higher for those employers currently not providing a pension scheme, with at least 56 per cent of employees expected to receive minimum contributions.

[Previous research](#) has also shown that a key factor in scheme choice is likely to be a preference for a simple solution that is easy to implement, especially amongst employers who are new to providing workplace pensions.

According to the Office for National Statistics [2012 Annual Survey of Hours and Earnings](#), 90 per cent of all employees earned less than £47,064 per year.

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