

Supporting automatic enrolment: further analysis of earnings, participation and provision

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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% 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% 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 the Government's response to this call for evidence, a number of analyses have been undertaken drawing on existing data sources and Departmental models. This paper gives the results.

The Department has also published a note called **Supporting automatic enrolment: information on small and medium employers** which provides the results of research with small and medium employers to support this call for evidence.

Analysis of earnings

Methodology

Estimates of the **automatic enrolment eligible population** earnings distribution were produced using [2012 Annual Survey of Hours & Earnings](#) (ASHE) data. Workers are eligible provided they are aged at least 22 and under State Pension age, and earn over £8,105 per year (in 2012/13 terms). Although the current (2013/14) automatic enrolment earnings trigger is £9,440, the ASHE analysis in this paper used a trigger of £8,105 to ensure consistency with other published analyses used in the Government's response to the call for evidence, for instance, on [participation](#). Use of an automatic enrolment earnings trigger of £9,440, instead of £8,105, has a limited

impact - median earnings for employees in the eligible population are around 1 percentage point higher.

Analysis of earnings is based on annualised weekly earnings. Annual earnings were not adjusted to take account of the effect of short spells in employment and exclude employees whose pay is affected by absence.

Workplace pension membership includes all pensions that are provided or facilitated via the workplace, principally for employees. It includes both occupational pension schemes and all forms of group personal and group stakeholder pensions regardless of the level of contributions made by the employer. Hence this section provides analysis for the automatic enrolment eligible population rather than the eligible *target* population as described in the section on participation. The target population is the subset of the eligible population who are either not currently saving in a workplace pension scheme or are saving in a workplace pension scheme where the employer contributes less than 3% of the worker's salary and the scheme is not a defined benefit scheme¹.

Additionally, the ONS classifies non-profit bodies and mutual associations as 'not classified'. The ASHE analysis in this paper includes these businesses in the private sector. Furthermore, ONS excludes jobs for which employees are not on adult rates of pay, such as those on reduced rates for reasons of apprenticeship, training or age. These jobs have been included in the analyses presented in this paper.

Results

Table 1 shows the distribution of earnings amongst private sector workers, with and without a workplace pension. Median earnings (50th percentile) for un-pensioned workers are around £20,000.

Table 2 shows the distribution of earnings for all private sector workers in the automatic enrolment eligible population by employer size. There are few workers in small employers (1 to 49 workers) earning over £60,000.

Table 3 shows the distribution of earnings for private sector workers, without a workplace pension, in the automatic enrolment eligible population by employer size. Of workers without a workplace pension, 2% earn over £60,000 and 5% earn over £45,000.

Table 4 shows the percentage of private sector workers in the automatic enrolment eligible population that have a workplace pension within each earnings band. Around 4 in 5 (79%) of workers earning over £60,000 per annum are already saving in a workplace pension.

¹ Defined benefit pension schemes are occupational pension schemes specifying the benefits that are paid on retirement.

Table 1: Earnings distribution for private sector workers, in the automatic enrolment eligible population

Workplace pension status	Point on earnings distribution (percentiles)							
	5 th	10 th	25 th	50 th	75 th	90 th	95 th	99 th
No workplace pension	£9,800	£11,400	£14,700	£19,900	£27,900	£38,500	£47,900	£82,300
Workplace pension	£13,400	£16,400	£22,600	£32,200	£45,400	£65,300	£84,900	£139,600

Notes:

1. Earnings estimates have been rounded to the nearest £100.

Table 2: Earnings distribution for all private sector workers in the automatic enrolment eligible population

Employer size	Gross annual earnings					Base: number of eligible workers
	£8,105 - £14,999	£15,000 - £29,999	£30,000 - £44,999	£45,000 - £60,000	£60,000 +	
1 to 4	58%	31%	7%	2%	2%	645,000
5 to 49	32%	45%	15%	4%	3%	3,375,000
50 to 249	23%	45%	20%	6%	6%	2,627,000
250+	26%	39%	20%	8%	7%	8,765,000
Total	28%	41%	19%	7%	6%	15,413,000

Notes:

1. The volumes of workers have been rounded to the nearest 1,000.
2. Volumes may not sum exactly due to the effects of rounding.
3. Percentages are rounded to the nearest 1%.

Table 3: Earnings distribution for private sector workers without a workplace pension in the automatic enrolment eligible population

Employer size	Gross annual earnings					Base: number of eligible workers without a workplace pension
	£8,105 - £14,999	£15,000 - £29,999	£30,000 - £44,999	£45,000 - £60,000	£60,000 +	
1 to 4	60%	31%	6%	2%	1%	591,000
5 to 49	37%	45%	13%	3%	2%	2,628,000
50 to 249	32%	48%	14%	4%	2%	1,650,000
250+	42%	43%	11%	3%	2%	4,592,000
Total	40%	44%	12%	3%	2%	9,461,000

Notes:

1. The volumes of workers have been rounded to the nearest 1,000.
2. Volumes may not sum exactly due to the effects of rounding.
3. Percentages are rounded to the nearest 1%.

Table 4: Percentage of private sector workers in the automatic enrolment eligible population with a workplace pension by earnings band

Employer size	Gross annual earnings					Total
	£8,105 - £14,999	£15,000 - £29,999	£30,000 - £44,999	£45,000 - £60,000	£60,000 +	
1 to 4	5%	10%	20%	27%	26%	8%
5 to 49	11%	21%	35%	49%	55%	22%
50 to 249	12%	33%	56%	65%	75%	37%
250+	17%	42%	71%	82%	85%	48%
Total	14%	34%	61%	74%	79%	39%

Notes:

1. Estimates for the number of workers have been rounded to the nearest 1,000.
2. Volumes may not sum exactly due to the effects of rounding.
3. Percentages are rounded to the nearest 1%.

The ASHE results in this paper are a subset of the analysis published by the Office for National Statistics [2012 Annual Survey of Hours and Earnings](#). This shows median gross annual earnings for full-time employees (who had been in the same job for at least 12 months, including those whose pay was affected by absence) were £26,500. 32% of all private sector employees were members of a workplace pension scheme.

Analysis of participation

Methodology

Estimates of the volume of workers eligible for automatic enrolment are based on analysis of the [2011 Employers' Pension Provision Survey](#) (EPP) and the 2010 ASHE. This extends the analysis of participation in the workplace pension reforms previously published by the Department in [impact assessments](#). The EPP was used to estimate the number of workers who are not currently members of a workplace pension scheme. ASHE was used to identify the group of workers who are eligible for automatic enrolment. Estimates are presented for the **eligible target population**, which is defined as those workers who are eligible for automatic enrolment and are either not currently saving in a workplace pension scheme, or; are saving in a workplace pension scheme where the employer contributes less than 3% of the worker's salary and the scheme is not a defined benefit scheme.

Results

Table 5 shows the distribution of the automatic enrolment target population by size of employer. Around 6 million individuals working for small and medium employers (less than 250 workers) are expected to be automatically enrolled into qualifying workplace pensions as a result of the reforms.

Table 5: Number of workers eligible for automatic enrolment

Employer size	Eligible target population
1 to 4	1 million
5 to 9	1 million
10 to 19	1 million
20 to 49	1 million
50 to 249	2 million
Less than 250	6 million
250+	5 million
Total	11 million

Notes:

1. Estimates are rounded to the nearest 1 million workers.
2. Components may not sum to the total due to rounding.

Analysis of employer choice of pension provider

Methodology

Estimates of the percentage of employers who will use NEST to enrol at least some of their eligible workers are based on DWP modelling of employer choice of pension scheme for automatic enrolment. [Employer choice modelling](#) is based on analysis of the Employer Intentions Module of the 2011 EPP and NEST research with employers and takes account of the impact that intermediary advice will have on employers' decisions.

Results

Table 6 shows that the percentage of employers expected to use NEST decreases as employer size increases. Around 65% of small and medium employers (less than 250 workers) are expected to use NEST to automatically enrol at least some of their workers. Around 70% of micro employers (1 to 4 workers) are expected to use NEST.

Table 6: Percentage of employers enrolling some workers into NEST

Employer size	% of firms using NEST	Base: population of employers
1 to 4	70%	735,000
5 to 9	60%	229,000
10 to 19	45%	118,000
20 to 49	50%	64,000
50 to 249	30%	32,000
Less than 250	65%	1,177,000
250+	30%	7,000
Total	65%	1,184,000

Notes:

1. Percentages are rounded to the nearest 5%.
2. Volumes are rounded to the nearest 1,000 employers.
3. Number of employers by size may not sum to the total due to rounding.

Analysis of current pension provision

Methodology

Analysis of employers' current pension provision is based on the 2011 EPP. An employer is defined as a "non-provider" if it does not offer a workplace pension scheme (an occupational pension, a Group Personal Pension, or a workplace based Stakeholder Pension) with at least one active member².

Analysis of the number of employers' that might consider a bulk transfer of their workplace pension provision to NEST is based on analysis of the 2011 EPP, DWP modelling of employer choice and the IFF Research Omnibus Survey.

Table 2.5 of the EPP report shows the percentage of employers providing Trust based defined contribution occupational pension schemes by employer size. These percentages were used to estimate the number of employers offering Trust based defined contribution schemes³.

DWP modelling of employer choice provides estimates of the percentage of employers who will use NEST to automatically enrol at least some of their workers. The IFF Research Omnibus Survey⁴ shows the percentage of small and medium sized employers likely to use a single pension scheme for all of their workers, by strength of likelihood⁵ and employer size. The percentage of employers that were "very likely" to use a single pension scheme for all their workers was used as a proxy for the percentage of employers with transferrable schemes that would consider transferring their provision to NEST.

² In the published EPP report employers offering workplace pension schemes that have no active members are classified as providers of workplace pensions.

³ Only Trust based occupational pension schemes based on defined contributions are eligible for transfer between providers.

⁴ Relevant analysis has been reproduced in: Supporting Automatic Enrolment: Information on small and medium employers, published July 2013

⁵ Likelihood categorised used: Very likely, Quite likely, Not very likely, Not at all likely.

The estimated percentages of employers using NEST and employers “very likely” to use a single pension scheme for automatic enrolment were combined and multiplied by the number of employers providing Trust based defined contribution schemes to provide an estimate of the number of employers that might consider a bulk transfer of their workplace pension provision to NEST. Given that the IFF Research Omnibus Survey only covers small and medium employers (less than 250 workers) estimates were restricted to these employer sizes.

Results

Table 7 shows that around 192,000 (16%) employers currently provide a workplace pension scheme to their workers. This means that around 84% of employers do not currently provide a workplace pension scheme to their workers.

Employer workplace pension provision varies by employer size. Only 1 in 5 (22%) large employers (250+ workers) do not provide workplace pensions, compared with more than 4 in 5 (84%) small and medium employers (less than 250 workers).

Nearly all of the employers not providing workplace pensions are small and medium employers (less than 250 workers) and around 95% of the non-providing employers employ less than 20 workers.

Table 7: Employers’ current pension provision

Employer size	Employers providing workplace pension	Employers not providing workplace pensions	% employers not providing workplace pensions	% of non-providers	% of non-providers - cumulative	Base: population of employers
1 to 4	60,000	675,000	92%	68%	68%	735,000
5 to 9	45,000	184,000	80%	19%	87%	229,000
10 to 19	38,000	79,000	68%	8%	95%	118,000
20 to 49	23,000	40,000	63%	4%	99%	64,000
50 to 249	20,000	12,000	37%	1%	100%	32,000
Less than 250	187,000	990,000	84%	100%	100%	1,177,000
250+	5,000	2,000	22%	-	100%	7,000
Total	192,000	992,000	84%	100%	100%	1,184,000

Source: DWP analysis of the 2011 Employer Pension Provision Survey

Notes:

1. Volumes are rounded to the nearest 1,000 employers.
2. Percentages are rounded to the nearest 1%.
3. “-“ means less than 1%.
4. Components may not sum to totals due to rounding.

Table 8 shows that around 15,000 employers currently provide workplace pension schemes that could be transferred to another pension provider. Of these around 14,000 are small and medium employers (less than 250 workers).

Table 8 also shows that around 5,000 small and medium employers might consider a bulk transfer of their workplace pension provision to NEST.

Table 8: Employers that might consider switching pension provision to NEST

Employer size	Employers providing workplace pension	Employers providing DC Trust pensions	Employers that might consider switching existing provision to NEST⁵
1 to 4	60,000	5,000	2,000
5 to 9	45,000	2,000	-
10 to 19	38,000	3,000	1,000
20 to 49	23,000	1,000	-
50 to 249	20,000	2,000	-
Less than 250	187,000	14,000	5,000
250+	5,000	1,000	n/a
Total	192,000	15,000	n/a

Notes:

1. Volumes are rounded to the nearest 1,000 employers.
2. “-“ means less than 1,000 employers.
3. “n/a” means not available.
4. Components may not sum to totals due to rounding.
5. Estimates based on responses to the IFF Research Omnibus Survey.

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