Workplace Pensions Reform: Estimates of the cumulative number of employees newly saving by selected months

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Department for Work and Pensions

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 £8,105 (in 2012/13 terms). Minimum contributions of eight per cent on a band of earnings must be paid in respect of the member, of which at least three per cent must come from the employer.

The new employer duties are being introduced from October 2012. Employers will be staged incrementally starting with the largest. Employers will also be able to adapt to the additional costs of the minimum contribution gradually, by phasing in contributions over time. The reforms will be fully implemented by October 2018.

This publication presents DWP estimates of the cumulative number of workers expected to be newly saving in a workplace pension scheme by selected months.

Methodology

Estimates presented here are based on DWP modelling which makes use of the latest available evidence on the employer and pensions' landscape, individuals' and employers' attitudes to pension provision and the reforms, and employers' choice of pension scheme[1]. There are two stages to the estimation: firstly, the overall number of workers expected to be newly saving in a workplace pension if the reforms were implemented in full from day one is estimated; then this estimate is distributed across the implementation period according to the staging dates assigned to employers by the Pensions Regulator (TPR) whilst taking account of estimates of employer births and deaths[2].

Estimates of the number of private sector workers and employers are taken from the Inter-Departmental Business Register (IDBR)[3]. Estimates of the number of workers

[1] A range of sources have been used, including the Employer Pension Provision Survey 2011, the Annual Survey of Hours and Earnings 2010 and the Individuals Attitudes Survey 2009. An account of the sources and methods used is available in the impact assessment that accompanied the workplace pension reform Employers' Duties (implementation) (amendment) Regulations 2012: http://www.dwp.gov.uk/docs/wpr-rev-implementation-ia-final.pdf

[2] Employers that are set up after October 2012 are due to be staged in between May 2017 and February 2018. Some of these will not survive until their proposed staging date. In addition some existing employers (those already in business before October 2012) will not survive until their proposed staging dates.

[3] Estimates of number of people in employment and a count of the number of VAT and/or PAYE based Enterprises in the UK are based on an extract of the IDBR taken in March 2011.

who are/ are not already members of a qualifying workplace pension scheme are based on analysis of the Employer Pension Provision Survey, weighted to the IDBR estimates of the number of private sector workers and employers. The Annual Survey of Hours and Earnings is used to estimate the percentage of workers eligible for automatic enrolment.

Eligible employees are defined as those:

- Ordinarily working in Great Britain;
- Aged between 22 and State Pension age;[4]
- Earning greater than £8,105[5] in total gross pay, in 2012/13 earnings terms.

Although all eligible workers will be automatically enrolled into a qualifying pension scheme, participation is not compulsory and workers will have the opportunity to opt out. The DWP's Individuals Attitudes Survey (IAS) is used estimate the percentage of workers who will opt out[6].

These estimates are combined to produce an estimate of the overall number of workers newly saving in a workplace pension scheme.

The IDBR contains data on the size of the largest Pay As You Earn (PAYE) scheme operated by each employer. Analysis of this data together with information from TPR on the staging dates by size of PAYE scheme[7] is used to distribute employers and their newly saving workers across the implementation period. These estimates are adjusted to take account of the possibility of employer births and deaths over the implementation period also using analysis of the IDBR[8].

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[4] Here State Pension age is defined as it was in 2007, where men reached State Pension age on their 65th birthday, and women reached State Pension age on turning 60. When automatic-enrolment begins in October 2012, the State Pension age of women will be slightly higher, due to the equalisation of State Pension age.

[5] This threshold is converted into 2010/11 earnings terms at £7,825.

[6] Based on analysis of the IAS opt-out rates of between 20% and 48% have been assumed for workers not already members of a workplace pension scheme.

[7] Staging date timeline: http://www.thepensionsregulator.gov.uk/employers/staging-date-timeline.aspx

[8] Count of Births of VAT and/or PAYE based Enterprises in the UK. Estimates of births and deaths are subject to a high degree of uncertainty.

Results

Table 1 shows the cumulative number of workers expected to be newly saving in a workplace pension scheme by selected months.

Table 1: Cumulative number of private sector workers newly saving in a workplace pension scheme

Date	Low	Principal	High
By Dec-12	400,000	600,000	700,000
By May-15	3,100,000	4,300,000	4,800,000

It is estimated that 400,000 to 700,000 workers will be newly saving in a workplace pension scheme by the end of December 2012.

It is estimated that 3,100,000 to 4,800,000 workers will be newly saving in a workplace pension scheme by the end of May 2015.

Notes:

1. Figures have been rounded to the nearest one hundred thousand.
2. Figures are presented as ranges that reflect uncertainty in the extent to which workers will opt out following automatic enrolment.
3. Estimates should be treated as illustrative only as some employers may choose to bring forward their staging dates and some may choose to make use of the waiting period provisions in the legislation and delay the enrolment of eligible workers for up to three months following their staging date. These uncertainties have not been accounted for in the ranges.
4. The number of workers newly saving excludes those who are members of a non-qualifying workplace pension scheme before automatic enrolment who save more as a result of the reforms.