Department for Work & Pensions

Research Summary

Automatic Enrolment evaluation report 2013

By the Department for Work and Pensions' Automatic Enrolment evaluation team with contributions from The Pensions Regulator and NEST (the National Employment Savings Trust)

Background

Millions of people in the UK are not saving enough for retirement. The legislative changes set out in the Pensions Acts 2007, 2008 (and updated as part of 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 set of pension reforms 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 the industry.[1]

The reforms require employers to automatically enrol eligible workers into a qualifying workplace pension scheme. The automatic enrolment duties are being staged in between October 2012 and February 2018 by employer size, starting with the largest employers. Workers will be eligible provided they are aged at least 22 and under SPA, and earn over £9,440 per year in 2013/14 terms.[2] Initially, until September 2017, contributions have been set at a minimum of one per cent employer contribution as part of a total minimum contribution of two per cent on a band of earnings.[3] By October 2018, once fully phased in, the total minimum contribution will be eight per cent, of which at least three per cent must come from the employer and one per cent will come from the Government in the form of tax relief.

As part of the reforms NEST (National Employment Savings Trust) was introduced, a new workplace pension scheme aimed particularly at low to moderate earners and employers of all sizes. NEST has a Public Service Obligation to accept all employers that want to use the scheme to fulfil either all or part of their employer duties.

Once fully implemented, automatic enrolment aims to transform the culture of saving, increasing 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, and increasing the amount that is being saved in workplace pensions by around £11 billion a year, within a range of £8 billion to £12 billion.[4]

Evaluation strategy

DWP is committed to fully evaluating the effects of the workplace pension reforms and set out its evaluation strategy in a report published in

[1] The Government is also legislating to introduce a new state pension and has brought forward increases to State Pension age (SPA). https://www.gov.uk/government/policies/making-the-state-pension-simpler-and-fairer

[2] These thresholds are reviewed annually.

[3] In 2013/14, the band of earnings on which contributions must be paid is £5,668 to £41,450.

[4] DWP (2013). *Workplace Pension Reforms: digest of key analysis* – July 2012. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf

July 2011.[5] Following on from the strategy, DWP published the baseline evaluation report in July 2012, which described the landscape before the implementation of automatic enrolment and set out the key indicators against which progress will be measured.[6] This report updates and shows progress against the baseline report using the latest available research and analysis from a range of information sources.

Key findings

The implementation of automatic enrolment began as planned in October 2012 starting with the largest employers. The first part of this summary describes what has happened since automatic enrolment began using the latest available research evidence from a range of sources. The second part of the summary updates the key baseline indicators that will be used to monitor the impact of automatic enrolment in future reports. It is important to note that these sources will not yet reflect the impact of automatic enrolment because the information was collected before the start of automatic enrolment.

Pension participation and opt-out rates

Up to the end of October 2013, more than 1.9 million workers had been automatically enrolled across nearly 3,000 employers.[7] Current NEST membership stands at over 600,000 individuals with around 1,800 employers.[8]

Once automatically enrolled into a workplace pension, individuals have the right to opt out within a specified period of one month. Workers can also choose to cease active membership of the pension scheme after the opt-out period has closed. Opt-out rates are important in providing an early indication of whether automatic enrolment is effective in increasing participation. DWP research with large employers with staging dates between October 2012 and April 2013 showed an average opt-out rate of nine per cent. The proportion of workers choosing to leave the scheme after the opt-out period closed was typically around one-fifth of the original opt-out rate. Within the employers taking part in the research it is estimated that overall participation in a workplace pension increased from 61 per cent to 83 per cent as a result of automatic enrolment.[9]

The most important factor influencing opt-out rates was contractual enrolment. Where this was already in place, opt-out rates were nearly double the average. Opt-out rates were also higher in the 50 and over age group compared with other age groups. The main reason given by individuals for opting out was the affordability of contributing to a pension set against other priorities. Other factors included life stage and career plans.

Individual awareness and attitudes

DWP has been running advertising campaigns to raise awareness and understanding of the reforms among individuals and monitors the impact of these campaigns using a tracking survey.[10] The most recent survey found that overall recognition of the advertising campaign

---

5 DWP (2011). *Workplace Pension Reforms Evaluation Strategy*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214545/rrep764.pdf

6 DWP (2012). *Workplace Pension Reforms: Baseline Evaluation Report*. At: https://www.gov.uk/government/publications/workplace-pension-reforms-baseline-evaluation-report-rr803

7 The Pensions Regulator (2013 – updated monthly). *Automatic enrolment monthly registration report*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report-2013.pdf

8 Management information provided by NEST at November 2013.

9 DWP (2013). *Automatic enrolment: Qualitative research with large employers*. At: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851

10 DWP (2013). *Pensions portfolio: communications tracking research – Findings from the July 2013 survey*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/251435/pensions-communications-research-july-2013.pdf

remained high at 82 per cent and that recognisers were substantially more aware of the changes than non-recognisers (76 per cent compared with 33 per cent). Those closer to being enrolled were typically more aware than those further from being enrolled.

Campaign recognition also had an effect on stated intentions about likelihood to stay in a pension once enrolled. Half of potentially eligible recognisers (51 per cent) were more likely to say they would stay in once enrolled, compared with 41 per cent of non-recognisers.

The communication tracking survey also showed that feelings towards automatic enrolment among individuals remains positive, with nearly 73 per cent of those surveyed saying it was a good thing. Just under 18 per cent were neutral about automatic enrolment, while just seven per cent were negative about automatic enrolment.

The DWP is working with its delivery partners, the Money Advice Service (MAS) and the Pensions Advisory Service (TPAS), to provide information for individuals. The information is provided online, in keeping with the Government's digital-by-default approach, with telephony support also available. Between April and September 2013, there were more than 680,000 page views of these organisations' websites, the vast majority of which were to the landing page on the GOV.UK website.[11]

Research with large employers found that most were satisfied that their communications had been successful in informing workers about automatic enrolment. Volumes of queries from workers in response to the information provided were much lower than employers expected.

Employer awareness, understanding and activity

Employers' awareness and understanding of their duties are crucial to maximising compliance with the legislation. As part of its role to maximise compliance, The Pensions Regulator acts to make employers aware of, and understand how to discharge, their duties. This also includes activity to raise awareness and understanding by intermediaries who will play an important role in supporting employers with their automatic enrolment duties. The regulator monitors levels of awareness and understanding using tracker surveys.[12]

A key point at which to measure awareness and understanding among employers is four months from their staging date, as employers receive a final letter reminding them of their duties around this time. In the most recent survey all employers staging between October 2012 and April 2013 and 99 per cent of those due to stage between May 2013 and October 2013, were aware of their duties.

Most employers understood their automatic enrolment duties, although levels of understanding have decreased slightly over time. All employers staging between October 2012 and April 2013 said they understood how to discharge their duties, compared with 85 per cent of employers staging in November 2013 and 91 per cent due to stage in January 2014.

Across employers of all sizes and excluding those four months from their staging date, the levels of awareness and understanding measured in spring 2013 were high. Awareness was near universal among large employers and also very high (95 per cent) for medium size employers for whom staging begins from April 2014. Awareness among small and micro employers furthest from their staging dates was 74 per cent and 61 per cent respectively.

Awareness of specific features of the employer duties also remained high across all employer

[11] Source: Data supplied to DWP by its partners for the period April to September 2013.

[12] The Pensions Regulator (2013). *Employers' awareness, understanding and activity relating to workplace pension reforms – Spring 2013* and *Intermediaries' awareness, understanding and activity relating to workplace pension reforms – Spring 2013*. At: http://www.thepensionsregulator.gov.uk/doc-library/research-analysis.aspx

sizes. The feature with the lowest level of understanding was the need to register with the appropriate Government body, i.e. the regulator. Awareness of this feature ranged from 87 per cent in large employers to 44 per cent in micro employers who are furthest from their staging dates.

Awareness of automatic enrolment by intermediaries measured in spring 2013 was also very high across all intermediary groups, ranging from near universal awareness among financial advisers to 90 per cent among bookkeepers. Awareness of specific features of employer duties was higher among financial advisers than trustees and business advisers who are more likely to be dealing with smaller employers furthest from their staging dates. As with employers, the least well known aspect of understanding was the need to register with the regulator.

Impact on employers

Minimising the burden and costs of automatic enrolment on employers will be a key factor in its success. Qualitative research with large employers who were among the first to begin automatic enrolment found that implementation costs varied according to a number of factors including use of external organisations to support implementation and the size and profile of the population being enrolled. Individual employers estimated set-up costs (not including employer contributions) to be in six or seven figures. The highest costs identified by employers were for external legal advice and running communication campaigns.[13]

In order to manage contribution costs, the majority of large employers set their contribution at the minimum level required. In some cases employers, and particularly those with contractual enrolment in place, offered matched contributions or offered more than the minimum employer contribution.

The key implementation challenges identified by large employers were: establishing effective data systems; categorising and assessing workers and communicating the changes to workers. In response to these issues the Government recently announced technical changes to the legislation in order to make the automatic enrolment process more straightforward for employers, for example allowing employers to use alternative definitions of pay reference periods for assessing workers and extending the automatic enrolment joining window from one month to six weeks.

In deciding on which pension scheme to use for automatic enrolment, most large employers in the research considered extending their existing provision to the new population who were to be automatically enrolled. The majority stayed with their current provider and many simply used one of their existing schemes for automatic enrolment. However, some decided to switch to new schemes or providers entering the market to supplement existing provision, especially those with large numbers of low-paid workers to enrol.

Updating the baseline indicators

The following sections update some of the key baseline indicators that will be used to monitor the impact of automatic enrolment in future reports. It is important to note that these sources will not yet reflect the impact of automatic enrolment because the information was collected before the start of automatic enrolment. The full report contains more detailed information about the data sources shown.

Increasing the number of savers

Automatic enrolment aims to reverse the trend in falling workplace pension participation; once fully implemented, it 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.

---

[13] DWP (2013). *Automatic enrolment: Qualitative research with large employers*. At: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851

In 2012, before the introduction of automatic enrolment, the number of eligible employees participating in a workplace pension was 10.9 million (55 per cent), falling from 12.3 million (65 per cent) in 2003. While public sector pension participation has remained consistently high at 4.9 million (88 per cent) between 2003 and 2012, private sector pension participation has fallen to 6.0 million (42 per cent) in 2012, down from 7.7 million (56 per cent) in 2003.[14]

The gap between male and female workplace pension participation in the private sector has narrowed slightly in 2012 to 43 per cent for males compared with 40 per cent for females. However, across both public and private sectors, participation by women is higher (59 per cent) compared with men (52 per cent).

The 22 to 29 age group has the lowest levels of participation at 35 per cent compared with the 30 to 39 age group at 54 per cent. Participation is highest in the 40 to 49 and 50 to 64 age groups, both at 62 per cent.

Increasing the amount of savings

Once fully implemented, automatic enrolment aims to increase the amount that is being saved in workplace pensions by around £11 billion a year, within a range of £8 billion to £12 billion. In 2012, before the introduction of automatic enrolment the total amount saved in workplace pensions was £72.9 billion, of which £37.1 billion was saved in private sector workplace pensions and £35.8 billion saved in public sector workplace pensions. Across both sectors contributions by employees accounted for 27 per cent of saving while employer contributions accounted for 65 per cent.

Employers may choose to reduce contributions or outcomes for existing pension scheme members, known as 'levelling down'. Between 2010 and 2012, before the introduction of automatic enrolment, around six per cent of eligible savers experienced some form of levelling down.[15]

The evaluation will look at the distribution of household wealth in order to understand the context in which automatic enrolment is being introduced using the longitudinal Wealth and Assets Survey.[16] In 2008/10, private pension wealth was the largest component of household wealth accounting for around 60 per cent of the total stock of net wealth.[17] Net property wealth (including main and other properties) accounted for around 30 per cent, while net financial wealth accounted for about ten per cent of the total.

The median total net wealth of all eligible employees in 2008/10 was £101,000. Looking at the components of net wealth, net property wealth for all eligible employees had the highest median value of £40,500. Median private pension wealth was lower at £34,200, with median net financial wealth considerably lower at £2,200. Up to 25 per cent of eligible employees had no private pension wealth at all.

Looking at private pension wealth, half of eligible employees had Defined Benefit (DB) pension wealth and 40 per cent had Defined Contribution (DC) pension wealth. Mean DB pension wealth was £107,700, much higher than the equivalent for DC pensions which was £14,600.

Understanding the wider context

The evaluation will also monitor changes to the wider pensions landscape. Analysis of the number of pension schemes shows a continuing decline in all types of scheme prior to automatic enrolment. There has also been a decline in the

[14] DWP estimates derived from the ONS *Annual Survey of Hours and Earnings, 1997 to 2012*.

[15] ibid.

[16] DWP estimates derived from the ONS *Wealth and Assets Survey* – Wave 2 – 2008/10.

[17] Private pension wealth includes all workplace pension and private pension wealth but excludes accrued rights to State Pension and pensions in payment.

number of non-employer sponsored pension schemes.[18]

With millions of new savers starting to save in a workplace pension scheme as a result of automatic enrolment, pension scheme charge levels have become a key issue because of the need to protect employees from poor pension returns. Latest research shows the average Annual Management Charge for trust-based schemes in 2013 was 0.75 per cent. For contract-based schemes the average charge was 0.84 per cent. These levels were largely unchanged from 2011.[19]

Long-term impact of the reforms

Automatic enrolment is predicted to reduce the number of people facing inadequate retirement incomes. It largely removes the problem of people not saving whilst in work, which is currently a common reason for people facing inadequate retirement incomes which are likely to be insufficient to allow them to maintain their standards of living in retirement.

Recent DWP analysis shows that automatic enrolment is expected to halve the number of people retiring with no private pension at all from 27 per cent to 12 per cent in 2050.[20] Automatic enrolment is also expected to reverse the trend of falling private pension income over time. Without automatic enrolment the median private pension income is expected to fall from around £3,900 a year in 2020 to around £2,200 a year in 2050. However, automatic enrolment reverses the falling trend; by 2050 the expected median private pension income is expected to be around £3,600. Improvements in private pension incomes are largely concentrated on those with low and median incomes who are expected to see larger proportional increases due to automatic enrolment than those on higher incomes.

While such long-term projections are subject to substantial uncertainty, the reforms will potentially have a sizeable effect on private pension incomes in the longer term beyond 2050.

[18] Sources: Occupational Pension Schemes Survey (OPSS), The Pensions Regulator (TPR)/Pension Protection Fund (PPF) Purple Book, information from the regulator's DC Trust publication and HMRC PEN2 tables.

[19] DWP (2013). *Charges in defined contribution pension schemes*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/258652/charges-in-defined-contribution-pension-schemes.pdf

[20] DWP (2013). *Framework for the analysis of future pension incomes*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/238978/framework-analysis-future-pension-incomes.pdf

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 909532 90 8. Research Report 854. November 2013).

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

Other report summaries in the research series are also available from the website above.

If you would like to know more about DWP research, please email: Socialresearch@dwp.gsi.gov.uk