Department for Work & Pensions

Research Summary

GOVERNMENT SOCIAL RESEARCH
Social Science in Government

Employers' Pension Provision Survey 2013

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Background

This report describes the extent and nature of pension provision among private sector employers in Great Britain in 2013. It also considers the early impact of the workplace pension reforms, as well as the intentions of employers who have yet to be directly affected. The findings are based on a telephone survey carried out among a nationally representative sample of 3,079 employers.

Under the Pensions Act 2008, employers are required to automatically enrol all eligible workers into a workplace pension scheme, although workers may choose to opt out. Employers are also required to make a minimum contribution into the scheme. The new duties were introduced for the largest employers in October 2012, and will apply to all sizes of employer by April 2017.

Methodology

EPP 2013 was commissioned by the Department for Work and Pensions and undertaken by TNS-BMRB Social Research and the National Institute of Economic and Social Research (NIESR).

The sample of private sector employers for the 2013 Employers' Pension Provision Survey (EPP 2013) was drawn from the Inter-Departmental Business Register (IDBR). Small businesses without employees were excluded, as was the public sector. The response rate at the main interview stage was 45 per cent.

The extent of pension provision in 2013

Around one-third (32 per cent) of private sector organisations made some form of pension provision for their employees in 2013. Some 12 per cent provided a stakeholder scheme (SHPs), five per cent of firms provided group personal pensions (GPPs), 18 per cent made contributions to employees' personal pensions (PPs); two per cent provided occupational schemes and one per cent offered access to the National Employment Savings Trust (NEST). However, if contributions to employees' PPs are excluded, then 19 per cent of all private sector firms provided a workplace scheme.

The proportion of firms offering any form of pension provision has remained broadly stable since 2011. However, the proportion of firms with a workplace pension scheme has fallen, having stood at 24 per cent in 2011.

The percentage of private sector employees who were either active members of a workplace pension scheme or belonged to arrangements whereby an employer made contributions to their PP rose from 26 per cent in 2011 to 35 per cent in 2013. This was the first increase for a decade and suggests that the workplace pension reforms have already had some effect. Sixteen per cent of all private sector employees belonged to occupational schemes; ten per cent belonged to GPP schemes; five per cent belonged to stakeholder schemes; two per cent had contributions made by their employer to their PP; and one per cent belonged to NEST.

Among the 68 per cent of all private sector firms which did not provide pensions for their employees, the most common reasons given for non-provision were that the organisation was too small, that pension provision was too costly and that staff did not want the firm to provide pensions.

Scheme status and eligibility criteria

One-sixth (16 per cent) of private sector firms had some form of workplace pension provision that was open to new members in 2013. Most of those private sector employers with a workplace pension scheme (84 per cent) therefore had a scheme that was open to new members.

Around half (53 per cent) of all occupational schemes were open to new members, compared with 89 per cent of SHP schemes and 74 per cent of GPP schemes.

Around one-third (34 per cent) of all occupational schemes were open to any employee of the organisation. A further 19 per cent were open, but restricted access to certain types of employee. The remaining 47 per cent of occupational schemes were closed to new members.

Almost half (44 per cent) of all SHP schemes were open to all employees. A further 44 per cent restricted access to certain types of employees, whilst 11 per cent were closed to new members.

For GPP schemes, around one quarter (27 per cent) were open to all employees, while 47 per cent restricted access to certain groups of employees. The remaining 26 per cent of GPP schemes were closed to new members.

The most common means of restricting eligibility – irrespective of scheme type – was to require employees to have worked at the organisation for a minimum amount of time before they were eligible to join the scheme, although waiting periods rarely exceeded one year.

Employer contributions

Around one-third (32 per cent) of private sector employees in 2013 belonged to a workplace pension scheme that attracted an employer contribution.

Across all active members of occupational schemes, the average employer contribution received was 12 per cent.

In around four-fifths (81 per cent) of SHP schemes with at least one active member, employers were contributing for at least some employees. The mean contribution rate, averaged across all members, stood at six per cent of pay.

In the majority (93 per cent) of GPP schemes, employers were contributing for at least some employees. The mean percentage employer contribution rate, averaged across all members, was also equal to six per cent of pay.

There were no statistically significant changes in these average percentage contributions when compared with those reported in the 2011 Employers' Pension Provision Survey (EPP 2011).

Employer experiences during the first year of automatic enrolment

Only two per cent of private sector organisations had passed their staging date at the time of the EPP 2013 interview and one per cent had begun to automatically enrol employees into a workplace pension scheme. This latter group of organisations accounted for around one-quarter (26 per cent) of all private sector employment however.

Most automatically enrolling employers (94 per cent) chose to retain members within their existing scheme. Many (74 per cent) also chose to enrol non-members and new employees into that scheme.

Around three-fifths (57 per cent) of automatically enrolling employers had set up a new qualifying scheme for non-members or new employees; in three-quarters (75 per cent) of cases this was an SHP or GPP scheme.

The proportion of employees who had opted out of, or left, a scheme after being automatically enrolled was between nine and ten per cent. The rate was lower among occupational schemes (six per cent) than among non-occupational schemes (12-14 per cent).

The average (mean) contribution being received by an active member in a scheme being used for automatic enrolment at the time of the survey was seven per cent (median six per cent).

After any phasing in period, around two-fifths (44 per cent) of eligible employees in automatically enrolling firms would be receiving an employer contribution of three per cent and 28 per cent would be receiving a contribution of at least six per cent.

Contributions were expected to be lower, on average, among staged employers who had not yet begun automatic enrolment: among these firms 66 per cent of eligible employees were likely to receive a contribution of three per cent and 19 per cent were likely to receive a contribution of at least six per cent.

Three-fifths (61 per cent) of automatically enrolling employers judged that the reforms had led to an increase in their total pension contributions, whilst one-quarter (26 per cent) judged that they had led to an increase in their administrative costs.

Characteristics, activities and attitudes of employers who have not yet staged

In 2013, among employers who had not passed their staging date, three-quarters (75 per cent) were aware that employers will be required to automatically enrol all eligible employees into a qualifying scheme. Fewer employers (41 per cent) were aware of the minimum requirements regarding contribution rates. Awareness of both aspects was much higher among larger employers.

Employers were asked to choose from a list of four statements that best described their preparations for the reforms. Two per cent of employers that had not passed their staging date had 'fully implemented plans'. Three-quarters (77 per cent) had 'not done anything'; one-fifth (19 per cent) had 'begun planning but not implemented anything'; the remaining two per cent had 'completed planning and were starting to implement'.

The majority (59 per cent) of employers who already had members in a workplace pension scheme planned to retain these members in their existing scheme. There was considerable uncertainty among both pension-providing employers and those not yet providing pensions as to where they would enrol new members.

The vast majority (91 per cent) of employers planned to seek information or advice in relation to at least some aspect of the reforms. The most common issues on which firms planned to seek advice were in choosing which type of scheme to use (83 per cent) and in understanding the legislation (82 per cent).

Around seven in ten firms (72 per cent) thought their total pension contributions would increase as a result of the contribution requirements. One quarter of firms said their most likely action to deal with any increase would be to absorb this as part of other overheads.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 910219 40 9. Research Report 881. July 2014).

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