Department for Work & Pensions

Research Summary

GOVERNMENT SOCIAL RESEARCH
Social Science in Government

Automatic enrolment: Qualitative research with employers staging in 2014

By Andrew Wood, Kate Downer, Dr. Louise Amantani and Chloe Gooders

Summary

This report provides the findings from a study commissioned by the Department for Work and Pensions (DWP), to evaluate employers' and workers' experiences of automatic enrolment. The research was designed to assess the impact of automatic enrolment on employers and their organisations. In particular, it sought to measure opt-out rates and understand their impact on pension scheme participation.

Background

The workplace pension reforms require employers to automatically enrol all eligible workers aged between 22 and State Pension age (SPa) into a qualifying workplace pension scheme. Workers have the option to leave the scheme ('opt out') within the month-long 'opt-out period' that follows their enrolment.

Once they have enrolled eligible workers into a workplace scheme, employers must make a contribution to those workers' pension savings. The minimum contribution levels for all automatic enrolment schemes are being phased in. Until the end of September 2017, the minimum contribution rate must total two per cent of the salary of each worker who is automatically enrolled, with at least one per cent provided by the employer.

Scope of the research

The research consisted of three strands:

- qualitative depth interviews with 50 employers, conducted with at least one person who had been involved in the implementation of automatic enrolment;
- quantitative administrative data provided by these employers, including details of any pension arrangements offered prior to automatic enrolment, and details of the numbers and types of workers who opted out after being automatically enrolled;
- qualitative depth interviews with 100 workers who had chosen to opt out of these employers' schemes after being automatically enrolled.

The employers who took part in the research all had one of five staging dates between January and July 2014 and encompassed a range of sectors, including private and public. The workers who took part in the research were based at 42 of the 50 employers included in the study. They had all opted out within one month of being informed that they had been automatically enrolled.

Worker opt outs

Opt-out rates

The employers included in the study represented a combined total workforce of around 7,900 workers. Of these, 43 per cent, representing about 3,400 workers, already participated in a pension scheme before automatic enrolment came into force. Just over one-third, or 34 per cent, of the total workforce was made up of eligible jobholders, who were automatically enrolled: this represents a total of over 2,700 individuals. The remaining 23 per cent in the 'other' category included groups such as non-eligible jobholders, individuals who were nominally on the payroll, but not currently working, and other workers who could not be categorised for the research.

The overall opt-out rate was 12 per cent in the first month after automatic enrolment. There was some variation in opt-out rates which ranged from five per cent to 15 per cent across the majority of employers. Taking into account opt outs, automatic enrolment increased average pension scheme participation rates from 43 per cent to 73 per cent.

Over the two to three months following the opt-out period, the average 'ceasing active membership' rate was around two per cent. In other words, a typical 12 per cent opt-out rate might increase to around 14 per cent of all employees having left the scheme two or three months afterwards. Just over half of the employers in the study reported that workers had opted-in to[1] the workplace scheme. These opt ins represented just over one per cent of the overall workforce at participating employers.

[1] A jobholder who is not eligible for automatic enrolment has a right to opt in to an automatic enrolment scheme if they fall into one of three categories:

- they are a non-eligible jobholder, either because they meet the earnings trigger but are under age 22 or above SPa or because they earn less than the earnings trigger but more than the qualifying earnings threshold;
- they are an eligible jobholder who has opted out after being automatically enrolled previously, but has changed their mind;
- their employer is operating a postponement period for automatic enrolment and, otherwise, they would qualify for automatic enrolment as an eligible jobholder.

The primary demographic characteristic that appeared to have a consistent impact on opt-out rates was age. In particular, opt-out rates were highest among the 50+ age group, and were often around twice as high here as among other age cohorts. This is consistent with findings from qualitative research with large employers who staged in 2012/13[2], which at the time were treated as indicative due to limited age-specific data. Part-time workers were also more likely to opt out than those working on a full-time basis.

Reasons for opting out

The reasons that workers gave for opting out of the workplace scheme related almost universally to their personal circumstances, and had very little to do with any characteristics relating to their employer. It was relatively rare for workers to mention just one reason for opting out: typically, they would refer to several, often overlapping reasons.

The most common reason workers gave for opting out was that they were concerned that they could not afford to make worker contributions. However, workers who cited issues of affordability were not necessarily workers on the lowest income brackets, and typically had a personal annual income of around £20,000 to £30,000 before tax.

Workers' second most common reason for opting out was that they already had something in place that they planned to use to fund their retirement. Workers who felt that they had sufficient retirement provision were not necessarily within the highest income brackets: only around half had a personal annual income above £30,000. Some workers felt that once they had put some provision in place to act as retirement income in the future, they had resolved the issue of saving for retirement and did not need any further provision.

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

Some workers felt that they did not have sufficient time to save into a pension before they reached the point of retirement, to make 'staying in' worthwhile. Most of the workers who cited this as a reason to opt out were aged over 50, but a few were in their 40s. It was common for workers who felt they were close to retirement to have relatively vague plans as to when they would retire, typically suggesting that this would happen in around five to ten years.

For some workers, the level of employer contribution on offer was simply not high enough to attract them to stay in the pension scheme. This was not necessarily because these workers were being offered only the minimum one per cent matched contribution; around half were being offered more. A few workers opted out because they did not plan to work at that employer for much longer. These workers usually felt that it was not worthwhile accumulating a small pension pot with one employer, which they might forget to keep track of once they were employed elsewhere.

A few workers mentioned that they had general concerns about pensions as a savings vehicle. These workers were typically more attracted to other types of savings and investments, and were uncertain about the kind of return they would get from this new pension.

Attitudes to saving for retirement

Nearly all the workers we spoke to agreed in principle that individuals should assume a degree of personal responsibility for supporting themselves financially after retiring. It became evident during the interview, however, that a few workers were relying partially or heavily on provision that would come from their family or the state. The majority of workers did not know how much the State Pension was currently worth.

It was common for workers to suggest that they would retire at SPa, without necessarily being sure that they had made financial provision to secure a comfortable retirement. Although most did not state explicitly that they would be solely dependent on the State Pension, most felt that they would retire at that point, either because they appeared to be more or less consciously expecting to rely to some degree on the State Pension for income, or because they would be falling in line with a cultural norm. Many also anticipate their health to play a role in this decision.

A minority of workers were planning to retire before reaching SPa. This was normally because they had provision in place: some of these suggested, for example, that they would retire around the time that they began drawing another workplace or private pension. It was common, however, for workers to describe themselves as open to the idea of working beyond the age at which they would be entitled to begin receiving the State Pension.

Employer experiences

Make-up of participating employers

The employers included in this research had up to 499 employees, if staging in January 2014, or as few as 62 if staging in July. Nearly all of the employers in the Large Employers Study[3], who had staged over 2012 and 2013, had a pensions department, headed by a Pensions Director or Pensions Manager, who typically had long and specialised experience dealing with pensions. None of the employers we interviewed in 2014 had a pensions department, and very few had a specific employee dedicated primarily to dealing with pensions.

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

The absence of a pensions department at any of the employers included in this study meant that nominating someone to implement automatic enrolment was typically not straightforward. The role of the individual in charge of implementation at employers staging in 2014 varied widely: at some, it was a Finance Director or even a Managing Director who was responsible for implementation; at others, it was someone in a more junior role, such as a Human Resources (HR) Officer or Payroll Assistant.

Pension arrangements prior to automatic enrolment

The majority of employers had offered a workplace pension prior to automatic enrolment. However, many of these employers reported very low participation in existing schemes, with some having fewer than ten workers as members. Often the scheme in question was a stakeholder scheme that had been set up some years previously, but had rarely attracted many members. These stakeholder schemes typically offered little or no employer contribution, and were rarely promoted actively within the organisation.

A few of the employers we interviewed had not offered a workplace pension prior to the introduction of automatic enrolment. The individuals responsible for implementation at these employers tended to find the task relatively daunting, compared to other employers who had previously offered a scheme.

Where an employer had made the decision to promote their previous scheme and offer an employer contribution, take-up was usually relatively high. These employers were likely to be able to place someone in charge of automatic enrolment who had previous experience in dealing with pensions, and understood pensions' terminology.

Preparing for automatic enrolment

It was common for employers to recall that they began researching their obligations around three to six months ahead of staging. Employers staging in 2014 were usually able to prepare for automatic enrolment at this stage because many of the processes involved in their preparations were relatively straightforward, with lower volumes of worker data, and fewer workers with 'atypical' employment contracts, than were reported by the very large employers staging in 2012 and 2013.

Some of the employers in this study had put a relatively senior employee – for example, the Finance Director – in charge of automatic enrolment. In these cases, this individual tended to approach the task with a high degree of confidence: some had been aware of the pension reforms long in advance of their staging date. At smaller employers staging in May and July, it became more common to find a relatively junior individual in charge of preparing for automatic enrolment, their responsibilities typically relating to HR or payroll. These relatively junior employees tended to find implementation quite challenging, due not only to a lack of direct experience with pensions or finance more generally, but also to their job already requiring a high degree of multi-tasking. Once an employer had put somebody in charge of automatic enrolment, that person was generally left to work on this alone.

Use of information and advice

On learning their staging date for automatic enrolment, the first step nearly all employers took was to visit The Pensions Regulator's website (TPR). Feedback on the regulator's website was largely very positive.

Most employers had also attended one or more events in the early stages of their preparations, typically run by a consultancy, or training sessions run by their payroll provider. Some employers mentioned that the events that they attended had been free of charge. For employers who could not afford, or did not want to spend a lot of time or money on preparing for automatic enrolment, it was important to access what was perceived as expert or official advice whenever they could.

Those employers who were willing and able to pay for advice generally found that advice to be very helpful. Typically, employers would use the services of an Independent Financial Adviser (IFA), an accountant, an Employment Benefits Consultant or someone they described as a 'broker.' Employers were more likely to call upon an adviser where they already had an ongoing relationship with one. If an adviser was responsible for recommending a provider, the employer usually accepted their recommendations with little hesitation.

Choosing a pension scheme and contribution levels

It was slightly more common for employers to automatically enrol workers at the minimum one per cent matched contribution rate. Employers providing higher contributions had often had a pension in place with high take-up prior to the introduction of automatic enrolment, although these employers were still typically contributing no more than a maximum of five per cent of the worker's earnings. It was common for employers to voice concerns that for most workers, a combined two per cent contribution would not provide a comfortable retirement.

While a majority of employers who took part in this study had a pension scheme in place prior to the introduction of automatic enrolment, only a few were able to use that current scheme for automatic enrolment, usually either because they knew or assumed that it was not compliant. Many employers went through a relatively brief process of choosing a new provider, typically only reviewing master trusts. Most of the employees responsible for choosing the provider did not consider pensions to be part of their usual job role.

Effort involved in implementing automatic enrolment

Some employers found implementing automatic enrolment more challenging than others, and the effort they needed to put in to successfully complete the process of decision-making and rollout depended to a large extent upon certain key factors:

- whether the employer already offered a workplace pension scheme, and how high the take-up of this existing scheme was;
- the seniority and expertise of the person responsible for implementation;
- the profile of their workforce: employers who had workers on similar and straightforward contracts, predictable monthly salaries, and low staff turnover generally found automatic enrolment much easier to implement than employers who did not.

These factors all affected the amount of time and effort that each employer needed to put into planning and implementing automatic enrolment: the size of employer was not the key factor that determined how challenging they would find automatic enrolment.

Measuring the cost of implementation

Only rarely did employers who took part in this study say they had incurred substantial ad hoc costs as a result of implementing automatic enrolment, and in this, they differed from employers who staged in 2012 and 2013. For the majority of employers, who did not hire an external organisation to provide them with advice or support during implementation, costs were very low and typically not measured. Employers who did choose to hire an external adviser tended to report that this raised their costs into the low thousands.

The majority of employers identified the main ad hoc cost of automatic enrolment as being the amount of time that had been invested in preparations. Over the two to three months immediately before staging, they estimated that they had spent between a few hours and a full day per week on preparations.

Communicating automatic enrolment to workers

All of the employers we spoke to had issued at least one letter or email to inform their workers about automatic enrolment. Most commonly, employers had sent letters by post to workers at home. Some had issued the letters as PDF attachments with emails to workers. The employer contact was typically responsible for preparing these letters, and for delivering them either via post, email, pigeon-holes, or by hand. Some employers also provided information via posters, which they placed around offices, often in staff break-out areas.

Many employers we spoke to provided verbal information about automatic enrolment to workers. This was done either collectively, through presentations, roadshows or staff meetings, or individually, in one-to-one conversations or 'surgeries.' Face-to-face interaction with a group of workers was often logistically simpler at smaller employers who took part in the study, than at larger ones.

Next steps and thoughts on the future

The majority of employers expected the ongoing administration of automatic enrolment to involve much less effort than implementation had. Typically, employers needed to enrol only a very small number of workers after their staging month.

A few employers felt that automatic enrolment placed too much onus on the employer, both in terms of the responsibility upon them to administer it, and from a financial perspective with the obligatory employer contribution. The majority of employers were pleased that the minimum employer contribution level had been set at one per cent, because this meant that the financial impact on the company was as low as possible.

Employers felt it was important to begin preparing for automatic enrolment early. However, with smaller numbers of workers to organise and enrol, they generally recommended around six to nine months before the employers staging date, compared to the 12 to 18 months recommended by the largest employers, who staged in 2012 and 2013.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 910219 73 7. Research Report 899. January 2015).

You can download the full report free from: https://www.gov.uk/government/organisations/department-for-work-pensions/about/research#research-publications

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