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Automatic enrolment opt out rates: Findings from qualitative research with employers staging in 2014

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Background

Millions of people in the UK have not been saving enough for retirement. The Pensions Acts 2008 and 2011 introduced automatic enrolment, which aims to increase private pension saving in the UK as part of a wider set of pension reforms designed to enable individuals to save towards achieving the lifestyle they aspire to in retirement.

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 £10,000 per year in 2014/15 terms. By 2018 minimum contributions of 8 per cent on a band of earnings (£5,772 to £41,865 per year in 2014/15) must be paid in respect of the member, of which at least 3 per cent must come from the employer. The automatic enrolment duties began in October 2012, starting with the largest employers and continuing with employers staging in 2014 who are the focus of this research. Small and micro-sized employers are due to implement automatic enrolment from June 2015.

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 9 million, within a range of 8 to 9 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.[1] As of October 2014 over 4.8 million people have been automatically enrolled into workplace pension schemes.[2]

DWP is committed to fully evaluating the effects of the workplace pension reforms and set out its evaluation strategy in a report published in July 2011[3]. One of the key factors that will affect actual participation levels and the impact of automatic enrolment on workplace pension saving is the number of workers who choose to 'opt out'[4] after being automatically enrolled. To support the evaluation of the reforms, the Department commissioned research with large employers in 2012/13[5] and has continued with this survey of employers staging in 2014. This paper gives results from employers who reached their staging date for automatic enrolment implementation from January 2014 to July 2014. This staging period included

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[1] Further details on the costs of additional contributions to individuals, employers and Government are set out in *Workplace Pension Reforms: Digest of key analysis.* July 2012. DWP At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223031/wpr_digest_0712.pdf

[2] *Declaration of Compliance Report*, October 2014. The Pensions Regulator, recent figures can be found at: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report.pdf

[3] *Workplace Pension Reforms Evaluation Strategy*, July 2011. DWP. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214545/rrep764.pdf

[4] Workers who have been automatically enrolled have the right to opt out within the first month without any contributions being taken.

[5] *Automatic Enrolment: Qualitative research with large employers,* October 2013, DWP At: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851

employers from the ‘large’ category with 250 or more workers, as well as the ‘medium’ category with between 51 and 249 workers.

Methodology

The overall aim of this research was to evaluate the experiences of employers staging in 2014 and their workers who opted out during these employers’ implementation of automatic enrolment (between January and July 2014) with a particular focus on the opt out rates of employees.

The data collected was primarily qualitative in nature, based on in-depth interviews with employers on participation levels, pension scheme choice or pension schemes chosen/used. These were then followed by in-depth qualitative interviews with workers who had opted out to explore the factors influencing the decision to opt out.

A sample of 50 employers with automatic enrolment duty start dates falling between January 2014 and July 2014 was taken using records from the Pensions Regulator. These employers represented a total combined workforce of 7,500 workers. The sample aimed to achieve a spread of employer sizes, sectors and industries. Employers included in the sample ranged in size from 90 to 499 workers and broke down into sectors in the following way:

- 16 in professional services
- 8 in retail
- 8 in manufacturing
- 6 in health and social care
- 6 in education
- 4 in leisure
- 2 in construction

A sample of 100 workers who had opted out was recruited with help from the employers who had been interviewed. Again the aim was for a spread in sizes, sectors and industries. The sample of workers who had opted out broke down into sectors in the following way:

- 34 in professional services
- 16 in retail
- 15 in health and social care
- 13 in manufacturing
- 10 in education
- 8 in leisure
- 4 in construction

It is important to note the analysis is not based on a fully representative sample of employers and the results are merely indicative of opt out and participation levels among employers staging in 2014, which are largely similar to those found in the survey of larger employers in 2012/13[6]. As this is a qualitative research study with a relatively small sample these results cannot necessarily be applied to the whole population of employers.

For the purposes of this analysis, opt out refers to those workers who left the pension scheme within one month of the date they were automatically enrolled, referred to as the opt out window. This is distinct from those workers who decided to leave the scheme in subsequent months who are instead classified as having ceased active membership of the scheme.

Results

Of the 50 employers participating in the study, 46 provided detailed opt out data representing a combined workforce of around 7,200 workers. 4 employers did not supply detailed data for this study.

Of these 7,200 workers, 44 per cent (around 3,300 workers) were already members of a pension scheme before automatic enrolment, with 35 per cent being automatically enrolled (around 2,600 workers). The remaining 21 per cent (around 1,300 workers) included: those not eligible for automatic enrolment; those on the payroll but not currently working; and others who could not be categorised for the research.

Opt out rates across all employers

Across all 46 employers the overall opt out rate was 12 per cent of those 2,600 workers who were automatically enrolled (about 310 workers, roughly 4 per cent of the 7,200 represented in the data). Most individual employers had between 5 and 15 per cent of their workers opting out following being automatically enrolled.

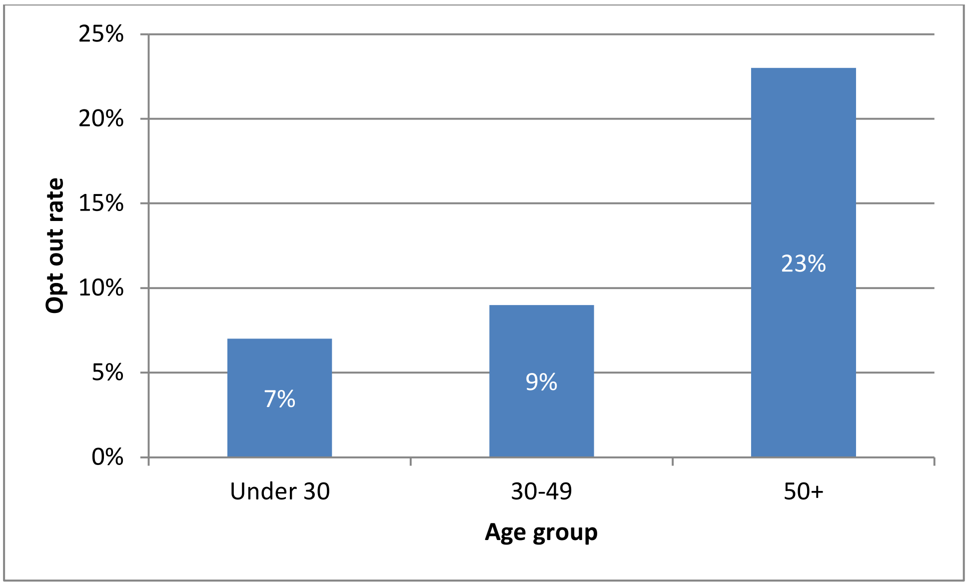
Across the 46 employers providing data it is estimated that overall participation in a workplace pension increased from 44 per cent to 76 per cent (from around 3,300 workers to 5,600 workers).

The 2012/13 employers' survey found an average opt out rate of 9 per cent; with individual employers' opt out rates varying from between 5 to 15 per cent. There is therefore a small difference between the 2012/13 and 2014 figures, however both figures are drawn from relatively small samples and therefore have a certain margin of error. It appears that opt out rates are remaining stable around one-in-ten, which could suggest that employer size is not a major factor in opt out rates, but this remains to be corroborated through surveying small and micro-sized employers implementing automatic enrolment in 2015.

[6] *Automatic Enrolment: Qualitative research with large employers,* October 2013, DWP pp.56. At: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851

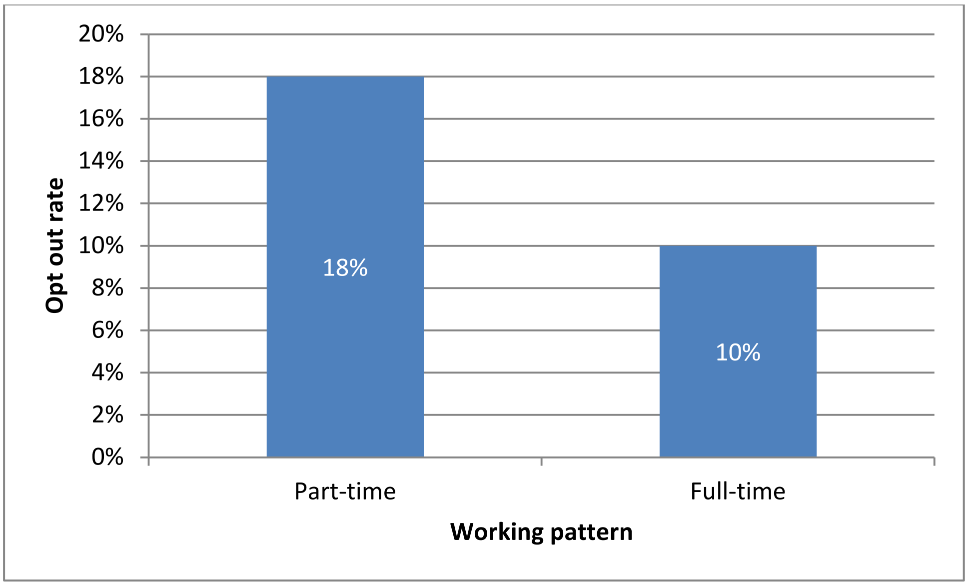
Characteristics of workers opting out
Opt out rates were 23 per cent for workers over 50 years old, compared to 7 per cent for those under 30 years old and 9 per cent for those aged between 30 and 49 years old (see fig.1).

Figure 1: Opt out rates by age group



In addition part-time workers were 8 percentage points more likely to opt out than full-time workers, with an opt out rate of 18 per cent for part-time workers compared to 10 per cent for full-time workers (see fig.2).

Figure 2 : Opt out rates by working patterns



Women were slightly more likely to opt out; with a rate of 14 per cent as opposed to the general 12 per cent, but this could be because women are more likely than men to work part-time rather than being a gender difference in its own right.

Other factors like salary and level of employer contributions did not seem to have an effect on opt out rates.

Reasons given for opting out

The most common reasons given (which are not mutually exclusive) were consistent across industry sectors and sizes of employer and were very similar to those given by workers who opted out in the larger employers study[7]. These reasons were:

- **Concerns about affordability:** Workers citing this reason felt that the costs of making contributions to them would be unaffordable. These workers tended to have little or no pension provision in place and reported that their pay was consumed by day-to-day expenses such as mortgages and childcare, as well as servicing debts. Some workers reported making a conscious decision to prioritise other expenses, either in the form of immediate consumption such as holidays or deferred consumption like non-pension savings or investment in property.
- **Feeling that they already had adequate retirement provision: This reason was largely cited by older workers.** Workers citing this reason felt that they already had sufficient provision for their retirement and that additional provision would be a waste of money. Those citing this reason tended to have investments in multiple savings vehicles such as pensions from previous employment, private pensions or other forms of investment. A commonly occurring belief among workers citing this reason was that investments in property were 'safer' and offered a quicker return than investing in a pension scheme. These workers tended not to see contribution costs as unaffordable.
- **Being close to retirement:** Workers citing this reason felt that they had insufficient time prior to retirement for their pension pot to accumulate to a significant amount. Most workers who cited this reason tended to be over 50. Workers citing this reason commonly had somewhat vague plans to retire within five to ten years and a belief that a workplace pension over this time period would be an inefficient investment. These workers had varying levels of provision, ranging from some already having provision from previous employment to others who planned to rely solely on a state pension.
- **Feeling that the contribution rate is too low:** Workers citing this reason felt that the employer contribution rate was too low for the pension to adequately support their retirement or offer an inferior rate of return compared to alternative vehicles for saving. Workers citing this reason included those offered the statutory minimum of 1 per cent matched contributions, as well as those offered higher contribution rates (which tended to be between 2 per

[7] *Automatic enrolment: Experiences of workers who have opted-out,* February 2014, DWP pp.3. At: https://www.gov.uk/government/publications/automatic-enrolment-experiences-of-workers-who-have-opted-out-a-qualitative-research-study

cent and 3 per cent), suggesting that a certain number of workers would require significantly higher contributions to wish to remain in a workplace pension.

- **Planning on moving to another employer:** Workers citing this reason were not planning to remain at the current employer for a long enough period of time for their pension to accumulate a significant amount. They tended to either be on a fixed-term contract and unsure about their future employment or actively planning to seek permanent work at another employer. This latter group included workers who saw their current job as a stop-gap whilst they sought to establish their career, with most planning to make pension arrangements once they had a job that was better-paid or that they planned to remain in on a long-term basis.
- **Concerns about pensions as a savings vehicle:** Workers citing this reason were sceptical about the rates of return offered by pensions compared to other investments. These concerns often related to the long time-frame and lack of control one has over the investment of a pension fund.

Ceasing active membership

Workers who chose to leave their schemes after the one month opt out window had ended are defined as having ceased active membership. Over the two to three months following the closure of the opt out period, the average ‘ceasing active membership’ rate was around 2 per cent, meaning that the total rate of workers leaving the scheme (opt outs plus those who subsequently ceased active membership) was around 14 per cent at the conclusion of the study. There were no measurable differences between different groups of workers ceasing active membership.

Employer communications of automatic enrolment

All employers surveyed had issued their workers with statutory written communication of the implementation of automatic enrolment. Most employers adapted the letter templates on The Pensions Regulator (TPR) website to suit their circumstances. Employers then often had to explain to their workers that automatic enrolment was compulsory and how the opt out procedure worked. Most employers were of the opinion that these templates were useful, although a small number expressed the opinion that the templates from the TPR website were too wordy and difficult for their workers to understand. Some employers used additional means of communication such as posters, company intranet messages and information leaflets included with paper payslips. These additional communications were often tailored to suit particular groups of workers. Once they had been automatically enrolled, most workers received detailed introductory information packs from their pension provider.

Employer responses to costs

Employers who took part in this study only rarely incurred substantial ad hoc costs as a result of implementing automatic enrolment; in this, they differed from the larger employers who staged in 2012/2013[8]. This was partly because some costs incurred by the larger employers were not perceived as necessary by the employers who staged in 2014: for example, legal advice, or consulting with payroll providers who were still testing out their software when the largest employers began automatic enrolment. Most employers in this study managed their payroll internally, incurring implementation costs of between £200 and £700 per year. Employing the services of an external adviser would increase this cost by a significant amount.

The majority of employers were relatively comfortable with the financial outlay they had made, seeing implementation as mandatory and therefore unavoidable. The main cost of implementing automatic enrolment was generally described in terms of time rather than money, typically involving one or two people working on automatic enrolment in addition to their usual duties.

Most employers in this study were making the current minimum contributions of 1 per cent matched worker and employer contributions, to a total of 2 per cent. In some cases, employers offered to match higher contribution levels subject to the worker also contributing a higher amount themselves. It was very rare for employers to level down or reduce contribution levels in existing schemes for new members, though in some instances existing schemes were offered to non-members for a limited period, with those who did not opt-in to these schemes being automatically enrolled into a master trust with lower contribution rates.

Some employers postponed enrolling all or part of their workforce due to seeking to reduce the costs of making contributions. In some cases specific sections of the workforce, such as workers on zero hour contracts, were postponed due to difficulties in determining their eligibility.

The majority of employers felt that the ongoing administration costs of automatic enrolment were manageable. However many expressed concerns about the costs of employer contributions, especially when the statutory minimum contributions rise. Those that felt that this would pose a financial challenge to the company discussed potential strategies for dealing with this such as reassessing salary increases, reassessing future worker recruitment and increasing prices or fees.

Employer choices of pension scheme

Whilst a large majority of employers had existing pension schemes, most had to select new schemes that would be in compliance with the guidelines around automatic enrolment. Most employers setting up new schemes used master trusts.

[8] *Automatic Enrolment: Qualitative research with large employers,* October 2013, DWP pp.42. At: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851

Master trusts were popular due to having been observed to be used by other similarly-sized employers. A small number of employers cited the positive features of master trusts such as their low costs. One feature in particular that was popular was the portability of individual funds in master trusts, which would allow the workers of employers with high staff turnover to more easily keep track of their pensions. NEST was the most commonly used of the master trusts due to being seen as “the government pension scheme”. A small number of employers mistakenly believed that they had to use NEST for workers they had automatically enrolled.

Employer implementation and attitudes to automatic enrolment

Employers in this study generally began preparing 3-6 months in advance of their staging date, a much shorter time frame than the larger 2012/13 employers who began preparing 1-2 years in advance of implementation.[9] For employers staging in 2014 the person responsible for implementation was generally a human resources professional but not a pensions specialist, which is another key difference from the larger employers who often had specialist pension departments. This meant that those implementing automatic enrolment were doing so in addition to their normal duties, with many reporting working extra hours to facilitate implementation. Those responsible for implementation found their main challenge to be in making time to accommodate implementation, as well as some issues in assessment of worker’s eligibility for different populations of workers, although the assessment in general was reported to be easier for the 2014 employers than it was for larger 2012/13 employers. In addition, employers reported that once the staff responsible had developed experience and familiarity with performing the administrative tasks that they became a great deal easier.

Employers in this study expressed a range of attitudes towards automatic enrolment, although most were in favour of it in principle. A few employers who supported automatic enrolment in principle felt that it placed too much onus on the employer, whilst others felt frustration with the way pensions were set up as schemes separate to existing payroll procedures. A few employers expressed more negative views of automatic enrolment, seeing it as a burden unfairly placed on employers that should be the responsibility of individual workers.

Lessons for smaller employers

The most common piece of advice given was to prepare early, with employers staging in 2014 citing an ideal preparation period of between 6 to 9 months ahead of staging. The same advice was also given by larger 2012/13 employers except that

[9] *Automatic Enrolment: Qualitative research with large employers,* October 2013, DWP pp.33. At: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851

they stated a period of between twelve and eighteen months to prepare.[10] This preparation time was stated as being necessary to understand the full ramifications of automatic enrolment legislation and to prepare management databases for assessment of workers' eligibility. In addition it was advised that this time could be used to research available pension schemes and payroll software to facilitate pension contributions. However employers implementing in 2014 also advised that certain tasks could not be done more than a month in advance of the staging date. This was especially the case for employers whose workers had variable earnings as they found it counterproductive to try and anticipate their workers' eligibility for automatic enrolment.

The final piece of advice given was to communicate automatic enrolment to workers clearly, with appropriate notice and in an appropriate manner so that they can understand it. It was also advised to leave an 'open door' for worker queries about automatic enrolment.

Notes

This research was conducted by an independent research organisation, RS Consulting. It took place between January 2014 and September 2014 as some employers had postponed their implementation beyond July 2014. Full findings from this research will be published in December 2014 on the DWP's research pages at GOV.UK.

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[10] *Automatic Enrolment: Qualitative research with large employers,* October 2013, DWP pp.104. At: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851