Department for Work & Pensions

Research Summary

Automatic Enrolment evaluation report 2014

By the Department for Work and Pensions' Automatic Enrolment Evaluation Team

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 2014) 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 State Pension age (SPa), and earn over £10,000 per year in 2014/15 terms[2]. Once fully phased in, in October 2018, a minimum contribution of eight 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 three per cent must come from the employer and one per cent will come from the Government in the form of tax relief. However, the initial contribution has been set at a minimum one per cent employer contribution as part of a total minimum contribution of two per cent until September 2017[3].

Once fully implemented, automatic enrolment aims to increase the number of individuals newly saving or saving more in a workplace pension by around nine million, within a range of eight to nine million[4], and increase the amount that is being saved in workplace pensions by around £11 billion a year, within a range of £8 billion to

1 In addition to rolling out automatic enrolment, the Government has legislated to introduce a new state pension and has brought forward increases to the State Pension age: https://www.gov.uk/government/policies/making-the-state-pension-simpler-and-fairer

2 These thresholds are reviewed annually.

3 Until September 2017, the minimum employer contribution is set at one per cent of the salary of each worker as part of a total minimum contribution of two per cent. From October 2017 employers will be required to contribute a minimum of two per cent on a band of earnings for eligible jobholders, as part of a total minimum contribution of five per cent. The minimum employer contribution will rise to three per cent in October 2018, and will be supplemented by the jobholder's own contribution and one per cent in tax relief. Overall contributions will then total at least eight per cent.

4 These estimates were updated in 2014, following the revision to the programme's opt out rate assumption being reduced from around 30 per cent to 15 per cent for the lifetime of the programme. DWP (2014). *Department for Work and Pensions Annual Report & Accounts 2013-14*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323953/dwp-annual-report-accounts-2013-2014.PDF

£12 billion[5].

Evaluation strategy

The Department for Work and Pensions (DWP) is committed to fully evaluating the effects of the workplace pension reforms, as set out in its evaluation strategy[6]. Following on from the strategy, DWP published the baseline evaluation report which described the landscape before the implementation of automatic enrolment and set out the key indicators against which progress will be measured[7]. Evaluation reports will be published on an annual basis, the first of these was the 2013 report[8], showing updates and progress against the baseline, using the latest available research and analysis from a range of information sources.

Key findings

Increasing the number of savers

Automatic enrolment aims to reverse the trend in falling workplace pension participation; once fully implemented automatic enrolment aims to increase the number of individuals newly saving or saving more in a workplace pension by around nine million, within a range of eight to nine million.

Up to the end of September 2014, more than 4.7 million workers have been automatically enrolled by nearly 34,000 employers[9]. Current National Employment Savings Trust (NEST) membership stands at 1.5 million members with around 9,000 employers[10].

Data, collected with reference to April 2013, six months after the implementation of automatic enrolment began, shows that the number of eligible employees participating in a workplace pension increased by 0.9 million to 11.7 million (58 per cent) in 2013, reversing the downward trend and potentially showing the positive impact of the workplace pension reforms[11].

Pension participation is closely related to employer size. The highest levels are observed amongst the largest employers, increasing by nine percentage points, from 2012, to 78 per cent in 2013, coinciding with the staged introduction of automatic enrolment.

In 2013, there was a rise in pension participation levels across all lower earnings bands with the largest increase (five percentage points) amongst those earning between £10,000 and £20,000, which is just above the automatic enrolment earnings trigger. Increases were also found across all age groups, and while participation in workplace pensions increases with age, the largest increases have been amongst the lower age groups, with those aged 22 to 29 increasing to 41 per cent in 2013.

Increasing the amount of savings

Once fully implemented, automatic enrolment aims to increase the amount being saved in

5 DWP (2012). *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

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

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

8 DWP (2013). *Automatic Enrolment evaluation report 2013*. At: https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013

9 The Pensions Regulator (2014). *Automatic enrolment: monthly declaration of compliance report*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report.pdf

10 Management information supplied by NEST at September 2014.

11 DWP (2014). *Official Statistics on workplace pension participation and saving trends of eligible employees*. At: https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

workplace pensions by around £11 billion a year, within a range of £8 to £12 billion.

In 2013, the annual total amount saved in workplace pensions was £77.6 billion, an increase of £4.3 billion from 2012. In the public sector this has increased by £2 billion to £37.9 billion, and in the private sector this has increased by £2.3 billion to £39.7 billion. Across both sectors, contributions by employees accounted for 29 per cent of saving, with employer contributions accounting for 61 per cent.

In order to manage the costs of automatic enrolment employers may choose to reduce contributions or outcomes for existing pension scheme members, known as 'levelling down'. DWP research with employers found limited evidence of levelling down, with employers rarely reducing contribution levels in existing schemes for new members. DWP analysis found that the level of eligible savers experiencing some form of levelling down has remained relatively consistent, increasing slightly to seven per cent in 2013.

The third wave of the ONS longitudinal Wealth and Assets survey (WAS), carried out in 2010/12, gave updated baseline measures for the distribution of the total stock of household wealth for eligible employees[12]. The total stock of net wealth for all eligible employees was around £3.2 trillion, with private pension wealth (excluding State Pensions) accounting for around half of the total.

The median total net wealth of all eligible employees in 2010/12 was £80,100. Median private pension wealth was £20,000, with up to 25 per cent of eligible employees having no private pension wealth at all.

Opt out rates

Once automatically enrolled into a workplace pension scheme, individuals have the right to opt out within a specified period of one month. This preserves individual responsibility for the decision about whether to save in a workplace pension. Workers can also choose to cease active membership of the pension scheme after the opt out period has closed. DWP research with employers found that overall, the level of opt out has been broadly consistent since automatic enrolment began in 2012[13]. The Employers' Pension Provision Survey (EPP) 2013 found that the proportion of employees who had opted out of, or left, a scheme after being automatically enrolled was between nine and ten per cent[14].

DWP qualitative research with 50 employers who staged between January 2014 and July 2014[15] showed an average opt out rate of 12 per cent, with the opt out rate for most individual employers ranging between five and 15 per cent[16]. The average ceasing active membership rate over the two to three months following the closure of the opt out period, was two per cent. Within the employers who took part in the research it is estimated that, as a result of automatic enrolment, the overall participation in a workplace pension increased from 44 per cent to 76 per cent.

[12] DWP estimates derived from the ONS Wealth and Assets Survey – Wave 3 – 2010/12. DWP (2014). *Statistics on household wealth*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/359271/household-wealth.pdf

[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

[14] DWP (2014). *Employers' Pension Provision Survey 2013*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/330512/rr881-employers-pension-provision-survey-2013.pdf

[15] Employers who took part in the research ranged in size between 90-499 employees.

[16] DWP (2014). *Automatic enrolment opt out rates: findings from qualitative research with employers staging in 2014*. At: https://www.gov.uk/government/publications/automatic-enrolment-opt out-rates-findings-from-qualitative-research-with-employers-staging-in-2014

The characteristic that had the largest effect on opt out rates, was age, with older employees being more likely to opt out than younger employees. Workers aged 50 and over had a greater average opt out rate (23 per cent) than workers aged 30 to 49 (nine per cent) and under 30 (seven per cent). The reasons given all related to the workers' personal situations, with most relating to their financial position at different stages in their life course.

Individual awareness and attitudes

To assist the delivery of the reforms, DWP has been undertaking communication activity to raise awareness and understanding of automatic enrolment among individuals. The impacts of the campaigns are monitored through an independent tracking survey[17]. Findings from the March 2014 survey showed that campaign recognition is at its highest ever level at 85 per cent. Advert recognisers are substantially more aware of automatic enrolment than non-recognisers (79 per cent compared with 45 per cent) and also were twice as likely to intend to stay enrolled (50 per cent compared with 25 per cent).

The DWP is working with its delivery partners, the Money Advice Service (MAS) and the Pensions Advisory Service (TPAS), to provide accessible and effective information for individuals. The information is provided online, in keeping with the Government's digital by default approach, with telephony support also available. Between October 2013 and September 2014, there were more than 4.6 million page views of these organisations' websites, the vast majority of which were to GOV.UK pages[18].

[17] DWP (2014). *Pensions portfolio: Automatic enrolment communications tracking research March 2014*. At: https://www.gov.uk/government/publications/pensions-portfolio-automatic-enrolment-communications-tracking-research-march-2014

[18] Source: Data supplied to DWP by its partners for the period October 2013 to September 2014.

Employer awareness, understanding and activity

In order to be able to comply with their duties, employers need to be aware of and understand how to discharge them. The Pensions Regulator supports compliance by raising employers' awareness and understanding of their responsibilities, through direct and indirect engagement. It does this via multiple channels and adapts its communication activities to make it as easy as possible for employers to comply with their duties. This also includes activity with intermediaries who play an important role in supporting employers with their automatic enrolment duties. The regulator monitors levels of awareness and understanding of automatic enrolment using a biannual and monthly tracker survey[19].

Surveys with employers two months before their staging date have consistently reported high levels of awareness and understanding, showing appropriate levels of preparation by these employers for automatic enrolment and complying with their duties. In the most recent survey, 99 per cent of employers staging between August and October 2014 were aware of their duties and 92 per cent said they understood how to discharge their duties.

Across employers of all sizes, and excluding those who have already staged or are four months from their staging date, the levels of awareness and understanding measured in Spring 2014 were high. Awareness was highest for medium size employers[20] (97 per cent) and lowest for micro employers (70 per cent).

[19] The Pensions Regulator (2014). *Employer automatic enrolment research Spring 2014* and *Intermediaries' awareness, understanding and activity in relation to automatic enrolment Spring 2014*. At: http://www.thepensionsregulator.gov.uk/doc-library/research-analysis.aspx

[20] Medium employers who took part in the spring 2014 tracker survey ranged in size between 50 and 60 employees.

Awareness of the specific features of the employer duties also remains high across all employer sizes. The feature with the lowest level of understanding continues to be the need to complete a declaration of compliance with the appropriate Government body, i.e. the regulator. Awareness of this feature ranged from 90 per cent of medium employers to 63 per cent of micro employers.

Levels of awareness remained high among all five intermediary groups interviewed. Awareness ranged from being lowest among accountants and bookkeepers at 92 per cent, compared with 100 per cent amongst HR professionals. Awareness of specific features of employer duties was highest for financial advisers. However, most intermediary groups showed improvement from previous waves of the survey. As with employers, the least well known aspect of understanding was the need to complete a declaration of compliance 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 employers who staged between January 2014 and July 2014 found that they rarely incurred substantial ad hoc costs as a result of implementing automatic enrolment, with the average implementation cost being between £200 and £700. Many of these employers were comfortable with the administrative costs of implementation, as they had tended to be low. Generally employers stated that their most significant cost had been in the time taken to complete tasks.

Contribution costs were a key factor for employers, particularly affecting employers who were automatically enrolling a large proportion of their workforce. Employers who had existing pension provision tended to offer contribution rates above the statutory minimum, whereas employers who offered no previous schemes or stakeholder schemes tended to offer the statutory minimum contribution. In some cases, employers did offer more than the minimum employer contribution in exchange for increased contributions from workers.

Whilst many of employers who staged in 2014 had a pension scheme prior to automatic enrolment, most of them were unable to use this scheme for automatic enrolment and therefore had to choose a pension scheme for those being automatically enrolled. Master trusts were commonly used by these employers.

Lessons for smaller employers were to start preparing early, between six and nine months in advance, making time to fully understand the requirements of the automatic enrolment legislation, prepare management databases, and research different pension schemes and payroll software.

Understanding the wider context

Data published by the regulator[21] shows the majority of employers (72 per cent) enrolled eligible workers into DC schemes, representing 82 per cent of those enrolled. Of those employers who automatically enrolled their workers into a DC scheme, around 28 per cent chose to use a master trust, which equates to around a fifth (20 per cent) of all employers and a quarter (25 per cent) of all automatically enrolled workers.

The large number of savers being automatically enrolled into DC schemes means that the standards of governance and administration of these arrangements is very important for savers' outcomes. Therefore the regulator's Code of Practice and the Government's *Better workplace pensions: further measures for savers* publication set out scheme governance requirements[22].

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[21] The Pensions Regulator (2014). *Automatic enrolment: Commentary and analysis*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2014.pdf

[22] DWP (2014). *Better workplace pensions: Further measures for savers*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/298436/better-workplace-pensions-march-2014.pdf

Long-term impact of the reforms

Automatic enrolment is predicted to significantly reduce the number of people facing inadequate retirement incomes. It largely removes the problem of people not saving for a pension whilst in work and it is estimated that over 5.5 million more individuals will spend over 70 per cent of their working lives contributing to a workplace pension after the reforms[23].

DWP analysis estimates that automatic enrolment is expected to halve the number of people retiring with no private pension income at all from 27 per cent to 12 per cent in 2050. Automatic enrolment is also expected to reverse the trend of falling private pension income over time. Without the reforms the median private pension income is expected to fall from around £4,000 a year in 2018 to around £2,200 a year in 2050 (in constant earnings terms). However, automatic enrolment reverses the trend; by 2050 the median private pension income is expected to be around £3,700.

Improvements in private pension incomes are largely concentrated amongst low to median earners who are expected to see a higher proportional increase in their private pension income, due to automatic enrolment, than high earners. While such long-term projections are subject to uncertainty the reforms will potentially have a sizeable effect on private pension incomes and the number of undersavers in the long-term.

[23] Source: DWP estimates derived from the Pensim2 model.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 910219 60 7. Research Report 887. November 2014).

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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