Department for Work & Pensions

Research Summary

GOVERNMENT SOCIAL RESEARCH

Social Science in Government

Automatic Enrolment evaluation report 2015

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.

The reforms require employers to automatically enrol eligible workers into a qualifying workplace pension scheme and make a minimum contribution. The automatic enrolment duties are being staged in between October 2012 and February 2018 by employer size, starting with the largest employers. Workers are eligible if they are aged at least 22 and under State Pension age (SPa), earn over £10,000 per year in 2015/16 terms (these thresholds are reviewed annually), normally work in the UK and do not currently participate in a qualifying workplace pension scheme. Currently, total minimum contributions are 2 per cent of a band of workers' earnings, of which at least 1 per cent must come from the employer. This will rise to 8 per cent, of which at least 3 per cent must come from the employer, in October 2018.

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, and increase the amount that is being saved in workplace pensions by around £15 billion a year, within a range of £14 billion to £16 billion[1].

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[2]. Following on from the strategy, DWP published the baseline evaluation report[3] which described the landscape before the implementation of automatic enrolment and set out the key indicators against which progress will be measured.

1 DWP (2015). *Workplace pensions: Update of analysis on Automatic Enrolment*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf

2 DWP (2011). *Workplace pensions evaluation strategy*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214545/rrep764.pdf

3 DWP (2012). *Workplace pension reforms: Baseline evaluation report*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193454/rrep803.pdf

Evaluation reports will be published on an annual basis as automatic enrolment is introduced from 2012 to 2018. Thus far two reports have been published, in 2013[4] and 2014[5], 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.

Up to the end of September 2015, more than 5.47 million workers have been automatically enrolled by over 60,000 employers[6]. National Employment Savings Trust (NEST) membership, as of the end of March 2015, stands at 2 million members with around 14,000 employers[7].

Data, collected with reference to April 2014, shows that the number of eligible employees participating in a workplace pension rose to 13.9 million (70 per cent), an increase of 3.2 million since 2012[8].

In 2014, there was a rise in pension participation levels across all earnings bands with the largest increase (18 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, with the largest being amongst the lower age groups, with participation amongst those aged 22 to 29 increasing by 19 percentage points to 60 per cent in 2014.

Increasing the amount of savings

Once fully implemented, automatic enrolment aims to increase the amount being saved in workplace pensions by around £15 billion a year, within a range of £14 billion to £16 billion. In 2014, the annual total amount saved in workplace pensions was £80.3 billion, an increase of £2.7 billion from 2013. This was driven by the private sector, where saving increased by £3.1 billion to £42.9 billion, whereas in the public sector this fell slightly by £0.5 billion to £37.4 billion.

Across both sectors, contributions by employees accounted for 30 per cent of saving, with employer contributions accounting for 60 per cent and tax relief the remaining 10 per cent.

In terms of the amount saved per eligible saver there has been a slight decline in the private sector; in 2012 the amount saved per eligible saver was £6,370 compared to £4,673 in 2014. This is likely to be a result of the increased number of savers with the majority making contributions at the current required minimum levels. In the public sector the rate of saving per eligible saver has increased from 2012.

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

5 DWP (2014). *Automatic Enrolment Evaluation Report 2014*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377120/rr887-automatic-enrolment-evaluation-2014.pdf

6 TPR (2015). *Automatic Enrolment: Declaration of Compliance monthly report*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf

7 NEST Corporation annual report and accounts 2014/15. At: http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Corp-ARA,pdf.pdf

8 DWP (2015). *Official statistic on workplace pension participation and saving trends of eligible employees: 2004-2014*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/445335/Workplace_Pension_trends_14_v1_1.pdf

In order to manage costs employers may choose to reduce contributions or outcomes for existing pension scheme members, known as 'levelling down'. DWP analysis found that the proportion of eligible savers experiencing some form of levelling down has risen slightly, from 6 per cent prior to the reforms to 8 per cent in 2014. The Employers' Pension Provision Survey (EPP) 2015 suggests that, of the employers whose contribution costs will increase as a result of automatic enrolment, 81 per cent have no plans to absorb these increased costs through changes to their existing pension scheme.

Opt out rates

Once automatically enrolled into a workplace pension scheme, individuals can choose to opt out within one month. Workers can also choose to cease active membership of the pension scheme after the opt out period has closed. EPP 2015 found that up to the end of August 2015, 10 per cent of automatically enrolled workers have opted out and a further 3 per cent of automatically enrolled workers have ceased active membership.

Larger employers tended to say that young or low earning workers were more likely to opt out.

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. Findings from the May 2015 survey showed that campaign recognition has remained high at 85 per cent. Advert recognisers are substantially more aware of automatic enrolment than non-recognisers (84 per cent compared with 57 per cent) and also were more likely to intend to stay enrolled (41 per cent compared with 35 per cent).

DWP launched a new communications campaign on 21 October 2015, aimed at small and micro employers as well as individuals. DWP have also launched a new microsite to provide information about automatic enrolment to employers and workers.

The DWP is also working with 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 2014 and September 2015, there were more than 3.6 million page views of these organisations' websites, the vast majority of which were to GOV.UK pages.

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 biannual and monthly tracker surveys.

Surveys of 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. The regulator's spring 2015 tracking research, with employers between four months and approximately two years from their staging date, shows that awareness of automatic enrolment remained high among small employers and increased among micro employers compared to autumn 2014[9]. Awareness was highest among small employers (88 per cent rising by 2 percentage points) in comparison to micro employers (77 per cent rising by 12 percentage points). There were significant increases in understanding of automatic enrolment since autumn 2014. Among small employers it rose by 9 percentage points to 59 per cent and among micros by 14 percentage points to 48 per cent.

Levels of awareness also remained high among all four intermediary groups interviewed[10]. Overall awareness ranged from being lowest among bookkeepers at 94 per cent, compared with 98 per cent amongst financial advisers. Awareness of specific features of the employer duties was also highest for financial advisers. However, both accountants and bookkeepers showed improvement from previous waves of the survey. The least understood aspect of the reforms was the classification of different types of worker in relation to automatic enrolment.

9 TPR (2015). *Employers' awareness, understanding and activity relating to automatic enrolment and evaluation of communications campaign*. At: http://www.thepensionsregulator.gov.uk/docs/employer-automatic-enrolment-research-spring-2015.pdf

10 TPR (2015). *Intermediaries' understanding and activity in relation to automatic enrolment and evaluation of communications campaign*. At: http://www.thepensionsregulator.gov.uk/docs/intermediary-automatic-enrolment-research-spring-2015.pdf

Impact on employers

EPP 2015 found that, across all employers that had staged up to August 2015, the total median cost of implementing automatic enrolment was £500. Employers tended to say that the most work came from communicating the reforms to workers, as well as ongoing administration of the pension scheme.

Understanding the wider context

Data published by the regulator shows the majority of employers (86 per cent) enrolled eligible workers into Defined Contribution (DC) schemes, representing 88 per cent of those enrolled[11]. Of these employers, around 50 per cent chose to use a multi-employer master trust, which equates to around 44 per cent of all employers and 47 per cent of all automatically enrolled workers.

11 TPR (2015). *Automatic Enrolment Commentary and Analysis: April 2014- March 2015*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2015.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.

Modelling suggests that, due to automatic enrolment, median retirement incomes will be higher, by 2070, than they would have been without the reforms[12]. However, the actual level of retirement income from a given pot size will vary due to factors like overall employment, earnings growth and fund performance.

[12] DWP modelling, using the Pensim2 dynamic micro-simulation model.

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 911003 09 0. Research Report 909. November 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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