Department for Work & Pensions

Research Summary

GOVERNMENT SOCIAL RESEARCH

Social Science in Government

Employers' Pension Provision survey 2015

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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 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. Workers will be eligible provided they: are aged at least 22 and under State Pension age (SPa); earn over £10,000 per year in 2016/17 terms (these thresholds are reviewed annually); normally work in the UK and do not currently participate in a qualifying workplace pension scheme. The total minimum contributions are currently two per cent of a band of workers' earnings, of which at least one per cent must come from the employer. This will rise to eight per cent, of which at least three per cent must come from the employer, by April 2019.

The automatic enrolment duties are being introduced in stages, by employer size, between October 2012 and February 2018. The date by which an employer must implement automatic enrolment is referred to as their 'staging date'. Staging dates are allocated by employer size, based on a snapshot of the UK employer population in 2012.

Large employers (250 or more workers) had staging dates between October 2012 and March 2014. Medium employers (50–249 workers) had staging dates between April 2014 and March 2015. Small (5–49 workers) and micro employers (1–4 workers) are staging between June 2015 and April 2017. All new employers since 2012 are staging between May 2017 and February 2018 (the majority of these are expected to be micro employers).

Prior to the introduction of automatic enrolment there had been a long-term decline in workplace pension participation in the private sector; between 2004 and 2012, there was a general downward trend in eligible employees' workplace pension participation, from 63 per cent to a low of 55 per cent[1]. Between 2012, when automatic enrolment was first introduced, and 2014 participation increased significantly to 70 per cent of eligible employees. By the time rollout completes in 2018, DWP estimate that nine

[1] DWP (2015) Workplace pension participation and savings trends: 2004 to 2014. At: https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2004-to-2014

million workers will be newly saving or saving more[2].

About the survey

This report presents findings from the 2015 Employers' Pension Provision survey (EPP 2015), which explores private sector pension provision and the early impact of recent pension reforms. The survey was conducted among a representative sample of 3,008 private sector employers, who between them employed over 1.8 million workers, in Great Britain. EPP 2015 was commissioned by the Department for Work and Pensions (DWP) and undertaken by IFF Research.

Fieldwork for the survey was conducted between 13 May and 11 September 2015. Due to the staging profile for automatic enrolment, at the time of fieldwork almost all large and medium employers had reached their staging date whilst only a very small number of small and micro employers had done so. This has created two distinct populations of employer within the survey: employers that had implemented automatic enrolment (referred to as 'staged employers', mainly large and medium, but also a small number of small and micro employers that had implemented early); and those that had not yet implemented automatic enrolment (referred to as 'employers yet to stage', mainly small, micro, and new employers).

This is a large-scale and wide-ranging survey that provides us with a significant amount of data on:

- employer pension provision in Great Britain in 2015;
- the early impact and experiences of automatic enrolment for large and medium employers;
- the expectations, plans and experiences of small and micro employers, as well as new employers, who are yet to stage.

A complete set of tables is published alongside this report for information.

Key findings

Participation in workplace pensions has more than doubled following automatic enrolment

Before implementing automatic enrolment, two-thirds of staged employers offered pension provision, and around a third of their workforce were participating in workplace pensions. This increased to 93 per cent of employers offering provision, and 66 per cent of the total workforce were participating following automatic enrolment (this figure takes into account workers that were ineligible for automatic enrolment, as well as those that had opted out or left a scheme after having been enrolled). Prior to automatic enrolment there were significant differences between sectors in terms of both pension provision and participation, but these results show that there are no longer any significant differences between sectors.

The majority (72 per cent) of employers yet to stage, offered no pension provision, and only 22 per cent of their workforce were participating in a workplace pension.

Employers yet to stage had almost universal awareness of automatic enrolment, with over half already making plans

The vast majority (95 per cent) of employers yet to stage were aware of automatic enrolment, 65 per cent were aware of the legal minimum contribution and 46 per cent were aware of the need to declare compliance with The Pensions Regulator (TPR). Awareness was slightly lower for the smallest employers, but much higher for those within six months of their staging date.

[2] DWP (2015) Workplace pensions: Update of analysis on automatic enrolment. At: https://www.gov.uk/government/statistics/workplace-pensions-update-of-analysis-on-automatic-enrolment

A majority (55 per cent) of employers yet to stage had begun planning for automatic enrolment, but had not yet taken action. The proportion of employers that had begun planning was much higher for employers within six months of their staging date.

Few employers are choosing to introduce automatic enrolment early, but half used flexibility to postpone

To date, six per cent of all employers had automatically enrolled in advance of their staging date.

Half of employers that had staged had used postponement, with the majority of these using the maximum period of three months. Just over two-fifths were using a waiting period for new workers, usually the allowed limit of three months.

Employers setting up a new scheme were most likely to use NEST

The majority (79 per cent) of staged employers that had offered a pension scheme prior to automatic enrolment were, as expected, using their existing scheme for automatic enrolment. Employers that had staged but previously offered no provision were most likely to have used National Employment Savings Trust (NEST) (40 per cent), or to have set up a new stakeholder, occupational or Group Personal Pension (GPP)/ Group Self-Invested Personal Pension (GSIPP) scheme (36 per cent). The few small and micro employers that had staged were more likely to have used NEST than another type of scheme. Overall, 23 per cent of staged employers were using NEST.

Employers that had not yet staged and already offered pension provision were most likely to plan to use their existing scheme (36 per cent). Many employers yet to stage who offered no pension provision did not yet know where they would be likely to enrol their workers (53 per cent); those that did know were most likely to set up a new stakeholder, occupational or GPP scheme (29 per cent) or to use NEST (17 per cent).

The vast majority of employers sought advice or guidance, but less than half paid for advice

Only eight per cent of employers that had implemented automatic enrolment had done so without seeking some advice or guidance. The most commonly sought areas of advice were: understanding the legislation, choosing a type of pension scheme and choosing a pension provider. Of those employers that sought advice on choosing a provider or scheme type, the most commonly used sources of advice were Independent Financial Advisors (IFAs), pension providers and TPR.

Of staged employers, fewer than half (44 per cent) of those who sought advice had paid for any of the advice they received. The median cost of paid advice was £2,650, although larger employers tended to pay more for advice. These figures are heavily skewed by large and medium employers given the population of staged employers.

Employers yet to stage were similar to those who had staged in terms of their expected use of advice, and whether they would pay for advice. Those yet to stage were slightly more likely to say that they expected to use an accountant for advice, and less likely to expect to use TPR.

The median cost of implementation for staged employers who did not pay for advice was zero

Larger employers tended to rate implementation tasks as more burdensome than smaller employers.

Across all staged employers, the total median cost of implementation was £1,000, with costs tending to increase with employer size. A key factor driving this implementation cost was use of paid advice; employers that had paid for advice had a median implementation cost of £4,000, whilst those that did not pay for advice had a median cost of £0 to implement automatic enrolment.

The majority (83 per cent) of staged employers were facing increased contribution costs as a result of the reforms. The most common strategies employers have either taken, or plan to take, in order to absorb these increased costs were to reduce profits or absorb them as part of other overheads (which 49 per cent of these employers planned to do). Only 12 per cent of employers planned to make changes to their existing pension scheme, and only three per cent planned to reduce contributions to their existing scheme.

A majority (74 per cent) of employers yet to stage expected their contribution costs to rise as a result of automatic enrolment. These employers say they are most likely to absorb increased costs by reducing profits, increasing prices or having lower wage increases. Larger employers tended to rate implementation tasks as more burdensome than smaller employers.

Fewer than one in ten automatically enrolled workers opt out

To date, nine per cent of workers that had been automatically enrolled had opted out during the one month opt-out period. Workers enrolled into NEST and single employer occupational schemes were slightly more likely to opt out than those enrolled into stakeholder schemes or GPP/GSIPPs.

After the one month opt-out period, eight per cent of automatically enrolled workers had left the scheme, although this includes those who had left the employer and who may have started contributing to another scheme with a new employer. Employers estimate that around half of these scheme leavers (four per cent of automatically enrolled workers) had chosen to stop saving into a scheme after the opt-out period, referred to as ceasing active membership.

Overall five per cent of workers that were ineligible for automatic enrolment had opted in. These workers were more likely to opt in to a stakeholder or single employer occupational scheme.

The majority of employers are phasing in increases to contribution rates in line with legislation, but one in three are already contributing above the legal minimum

Overall, 62 per cent of staged employers were phasing in contribution rate rises in line with the legislation, but around a third were contributing at least three per cent from the start. The majority (72 per cent) of staged employers were already contributing or planned to contribute the same rate for all workers.

Of those employers that were phasing in contributions, 85 per cent planned to contribute at the legal minimum following phasing (three per cent), nine per cent of employers planned to contribute between three per cent and six per cent and two per cent of employers planned to contribute more than six per cent. The average contribution rate for staged employers was three per cent (compared to current legal minimum of one per cent), this was higher for stakeholder schemes and GPP/GSIPPs and lower for NEST and other master trusts.

Employers that had not yet staged reported planned contribution rates that were similar to those who had already staged, with 14 per cent planning to contribute above the legal minimum.

Given the employer population and staging profile, the full impact of automatic enrolment is still to be felt in terms of overall access to workplace pension provision in Great Britain

At the time of fieldwork only a minority of all GB employers (25 per cent) offered workplace pension provision, although this has increased by six percentage points since 2013[3].

This was driven by smaller employers, the majority of whom were not yet required to offer a pension, as almost all employers with 50 or more workers offered a workplace pension. The most common provision offered was a stakeholder pension (13 per cent) or a GPP or GSIPP (eight per cent). Only three per cent of employers offered an occupational scheme or access to NEST, whilst only two per cent offered access to a master trust other than NEST. A small number of employers (12 per cent) also offered contributions to workers' personal pensions.

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3 DWP (2014) Employers' Pension Provision survey 2013. At: https://www.gov.uk/government/publications/employers-pension-provision-survey-2013

The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 911003 24 3. Research Report 919. March 2016).

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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