Department for Work & Pensions

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Automatic Enrolment Evaluation Strategy

December 2017

Automatic Enrolment Evaluation Strategy

DWP ad hoc research report no. 61

A report of research carried out by the Department for Work and Pensions.

This document/publication is also available on our website at: https://www.gov.uk/government/organisations/department-for-work-pensions/about/research#research-publications

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First published 2017.

ISBN 978-1-78425-998-3

Summary

To support the millions of people in the UK not saving enough for retirement, the Government introduced legislation in Pensions Acts from 2007, with the aim of increasing private pension saving in the UK. In 2012 automatic enrolment was introduced as 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 challenges for employers and the industry. Once the current programme is fully implemented, it is estimated that over 10 million workers will be newly saving or saving more into a workplace pension as a result of automatic enrolment, and the annual saving into workplace pensions will increase by £20 billion by 2019/20.[1]

Automatic enrolment currently consists of four key elements:

- employers are required to automatically enrol their eligible jobholders into a qualifying workplace pension (with jobholders retaining the right to opt out);
- minimum contributions of eight per cent on a band of earnings, of which at least three per cent must come from the employer, by April 2019;
- a compliance regime (enforced by The Pensions Regulator) to ensure employers meet their obligations; and
- NEST – a workplace pension scheme set up by government to make sure that every employer has access to a qualifying scheme.

The evaluation of the reforms under the 2011 Workplace Pension Reforms Evaluation Strategy has informed the 2017 review of automatic enrolment. This new Evaluation Strategy has been updated to build on the framework set out in the 2011 strategy, taking into account contextual changes affecting the delivery of automatic enrolment since its inception.

The refreshed Evaluation Strategy is structured around seven key Evaluation Questions which seek to understand the effectiveness of the rollout of automatic enrolment to date, the impact of the planned increase in minimum contribution rates (phasing), and how to maximise the effectiveness of this major reform. To ensure the evaluation represents value for money to the taxpayer, the evaluation will continue to draw on existing information sources as far as possible.

[1] DWP. (2017a). *Automatic Enrolment Review 2017: Analytical Report*.

Contents

List of figures

Acknowledgements

We would like to thank the cross Government steering group that includes representatives from across the DWP, NEST, The Pensions Regulator, HM Treasury and the Office for National Statistics for the support and commitment in producing this report.

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List of abbreviations

AE	Automatic enrolment
DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
EQ	Evaluation Question
HMT	Her Majesty's Treasury
HMRC	Her Majesty's Revenue and Customs
IFS	Institute for Fiscal Studies
MAS	Money Advice Service
NEST	National Employment Savings Trust
ONS	Office for National Statistics
PAYE	Pay As You Earn
TPAS	The Pensions Advisory Service
TPR	The Pensions Regulator (also referred to as 'the regulator')

Glossary of terms

Active member	Individuals currently contributing to a pension scheme, or having contributions made on their behalf.
Automatic enrolment	The Government introduced a law designed to help people save more for their retirement. This requires all employers to enrol their eligible jobholders into a workplace pension scheme if they are not already in one. In order to preserve individual responsibility for the decision to save, workers have the right to **opt out** of the scheme.
Career average	A **Defined Benefit** (DB) scheme that gives individuals a pension based on their salary times the accrual rate in each year of their working life. Entitlements that are built up each year are revalued in line with inflation or earnings.
Ceasing active membership	If an eligible jobholder chooses to stop paying into an automatic enrolment scheme after the end of the opt out period, they are said to cease active membership.
Cessation	When a worker has **ceased active membership.**
Contract-based pensions	Pensions where the legal contract is between the individual and the pension provider, usually an insurance company. Also known as **personal pensions**.
Contributions	The amount (often expressed as a percentage of earnings) that a worker and/or employer pays into a pension.
Defined Benefit	A type of occupational pension scheme. In a DB scheme the amount the member gets at retirement is based on various factors. These could include how long they have been a member of the pension scheme and earnings. Examples of DB pension schemes include **final salary** or **career average** earnings-related schemes. In most schemes, some of the pension can be taken as a tax-free lump sum. The rest is then received as regular income, which might be taxable.
Defined Contribution	A type of pension scheme. In a DC scheme a member's pension pot is put into various investments such as shares (shares are a stake in a company).The amount in the pension pot at retirement is based on how much is paid in and how well the investments have performed. The pension can usually be accessed from age 55. These are also known as 'money purchase' schemes.

Eligible jobholder A worker (sometimes referred to as an employee) who is 'eligible' for automatic enrolment. An eligible jobholder must be aged at least 22 but under **State Pension age**, earn above the earnings trigger for automatic enrolment, and work or usually work in the UK and are not already a member of a **qualifying pension** scheme.

Employer size Employer size is determined by the number of employees. For the purpose of staging dates, The Pensions Regulator categorises employer size based on number of employees in Pay As You Earn (PAYE) schemes as follows:

Micro = 1 to 4 employees

Small = 5 to 49 employees

Medium = 50 to 249 employees

Large = 250+ employees

If any alternative definitions of employer size are used, they will be defined in the report.

Entitled worker A **worker** who is aged at least 16 and under 75; works, or ordinarily works, in the UK; and earns below the lower earnings level of qualifying earnings (£5,876 for the 2017/18 tax year). Entitled workers are not eligible for **automatic enrolment**, although they can choose to join a **workplace pension**. Their employer is not required to make a contribution if they do so.

Group Personal Pension A type of **personal pension** scheme set up by an employer on behalf of its workers. Although the scheme is arranged by the employer, each pension contract is between the pension provider and the worker. The employer may also pay into the scheme, adding money to each worker's pension pot.

Group Stakeholder Pension An arrangement made for the employees of a particular employer, or group of employers, to participate in a stakeholder pension on a group basis. This is a collective arrangement only; the contract is between the individual and the **pension provider**, normally an insurance company.

Hybrid pension scheme A private pension scheme which is neither purely a DB nor DC arrangement. Typically a hybrid scheme is a DB scheme, which includes elements of DC pension design.

Implementation Refers to the period in which employer duties are being introduced. This will take place between October 2012 and April 2019 by size of employer (from large to small). See also **staging** and **phasing**.

Levelling down	Strategies employers might use to reduce the generosity of contributions or outcomes for existing pension scheme members.
Logic map	A tool for describing the relationship between the inputs, outputs, outcomes and impacts of any policy intervention. It sets out the theory for how a policy leads to changes in behaviour, which allows assumptions to be tested about whether these changes occur as a direct result of implementing the policy.
Master trust	A multi-employer **trust-based pension** scheme, which is promoted to a range of employers.
NEST	A trust-based workplace pension scheme, established by legislation, to support automatic enrolment and ensure that all employers have access to a quality, low-cost pension scheme with which to meet the employer duties.
Non-eligible jobholder	A worker who is not eligible for automatic enrolment but can choose to 'opt in' to an automatic enrolment scheme and will be entitled to a mandatory employer contribution should they do so. If they do opt in, their employer must still make a contribution. Non-eligible jobholders are in either of the following two categories: a worker who is aged at least 16 and under 75 and earns above the lower earnings level of qualifying earnings but below the earnings trigger for automatic enrolment; or is aged at least 16 but under 22, or between **State Pension age** and under 75; and earns above the earnings trigger for automatic enrolment.
Occupational Pension scheme	A type of workplace pension organised by an employer (or on behalf of a group of employers) to provide benefits for employees on their retirement and for their dependants on their death. In the private sector, occupational schemes are trust-based. Types of occupational scheme include DB, DC and hybrid schemes.
Opt in	**Eligible jobholders** can choose to join the pension scheme nominated by the employer for automatic enrolment during the postponement period, where applicable. **Non-eligible jobholders** and **entitled workers** have the right to do the same at any time.
Opt out	Where a jobholder has been automatically enrolled, they can choose to 'opt out' of a pension scheme. This has the effect of undoing active membership, as if the worker had never been a member of a scheme on that occasion. It can only happen within a specific time period, known as the 'opt-out period'.

Opt-out period A jobholder who officially becomes a member of a pension scheme under the automatic enrolment provisions has a period of one calendar month during which they can opt out and get a full refund of any contributions made. This ‘opt-out period’ starts from whichever date is the later of the date active membership was achieved or the date they received a letter from their employer with their enrolment information. After this opt-out period a jobholder can still choose to leave the scheme at any time, but will not usually get a refund of contributions, which will be held in their pension until they retire.

Pension provider An organisation, often a life assurance or asset management company, that offers financial products and services relating to retirement income.

Pension scheme A legal arrangement offering benefits to members.

Personal pension An arrangement where the pension is set up directly between an individual and a pension provider. This could be set up by an employer (see Group Personal Pension) or by an individual (sometimes referred to as an Individual Personal Pension). The individual pays regular monthly amounts or a lump sum to the pension provider who will invest it on the individual’s behalf. The fund is usually run by financial organisations such as insurance companies or asset managers. Personal pensions are a form of DC pension. See also **Contract-based pensions**.

Phasing The Government has set a minimum amount of money that has to be put into the pension by an employer and in total (i.e. employer and worker’s contribution). Currently the total minimum contribution is 2 per cent of the worker’s salary of which the employer must contribute at least 1 per cent and 0.2 per cent comes from the state in tax relief. From April 2018, the minimum contribution rises to five per cent of which the employer must contribute at least 2 per cent and the state contributes 0.6 per cent in tax relief. In April 2019 the contribution rate rises again to a total of 8 per cent of which the employer must contribute at least 3 per cent and the state contributes 1 per cent through tax relief.

Postponement An additional flexibility for an employer that allows them to choose to postpone automatic enrolment for a period of their choice of up to three months. Postponement can only be used for a worker on the employer’s staging date; the first day of worker’s employment; or on the date a worker employed by them meets the criteria to be an eligible jobholder. If an employer chooses to use postponement, they must provide

	written notice of this to their workers. This is also called ‘deferral’.
Private pension	All pensions that are not provided by the state. They include occupational and personal pensions, including those for public sector employees.
Protected groups	Under the Equality Act 2010, protected groups share a particular characteristic against which it is illegal to discriminate. These include race, disability, age and gender.
Qualifying scheme	To be a qualifying scheme for automatic enrolment a pension scheme must meet certain minimum requirements, which differ according to the type of pension scheme. DC schemes are based on the contribution rate and require a minimum total contribution based on qualifying earnings, of which a specified amount must come from the employer. The minimum requirements for DB schemes are based on the benefits a jobholder is entitled to under the scheme. Hybrid pension schemes contain elements of DB and DC and, depending on what type of hybrid they are, will have to meet either the same, or a modified version of, the minimum requirements for DB or DC pension schemes or a combination of both.
Staging	Refers to the staggered introduction of the new employer duties, starting with the largest employers, based on PAYE scheme size, in October 2012, to the smallest by May 2017. New PAYE schemes from April 2012 will stage last, in 2017 and 2018.
Staging date	The date on which an employer is required to begin automatic enrolment. It is determined by the total number of employees in an employer’s largest PAYE scheme on 1 April 2012.
Stakeholder pension	A type of personal pension arrangement introduced in April 2001 which could be taken out by an individual or facilitated by an employer. Where an employer had five or more staff and offered no occupational pension and an employee earned over the lower earnings limit, the provision of access to a stakeholder scheme, with contributions deducted from payroll, was compulsory. Stakeholder pensions are usually a **contract-based** pension scheme, subject to government regulations which limited charges and allowed individuals flexibility about contributions and transfers, introduced in April 2001. These ceased to be mandatory after the workplace pension reforms were introduced.
State Pension age	The earliest age at which an individual can claim State Pension.

The Pensions Regulator	Referred to as ‘the regulator’ and is the UK regulator of workplace pension schemes, including limited aspects of workplace personal pensions. It is responsible for ensuring employers are aware of their duties relating to automatic enrolment, how to comply with them and enforcing compliance. It uses a programme of targeted communications and a range of information to help employers understand what they need to do and by when.
Trust-based pensions	Pension schemes set up under trust law by one or more employers for the benefit of workers. In a trust-based scheme a board of trustees is set up to run the scheme. Trustees are accountable for making decisions about the way the scheme is run, although they may delegate some of the everyday tasks to a third party. See also **Occupational pension scheme** and **Master trust**.
Waiting period	A type of **postponement**, where new workers or newly eligible workers may have their automatic enrolment delayed for up to three months.
Worker	An employee or individual who has a contract to provide work or services personally and is not undertaking the work as part of their own business.
Workplace pensions	Any pension scheme provided as part of an arrangement made for the employees of a particular employer.
Workplace pension reforms	The reforms introduced as part of the Pensions Acts 2007, 2008 (and updated as part of the Pensions Act 2011 and 2014). Starting in 2012, the reforms include a duty on employers to automatically enrol all eligible jobholders into a qualifying workplace pension scheme.

1 Introduction

The Evaluation Strategy provides a framework for evaluating the effects of automatic enrolment. Our latest evaluation evidence has informed the 2017 review of automatic enrolment. This new strategy builds on the framework set out in the 2011 Workplace Pension Reforms Evaluation Strategy, taking into account contextual changes affecting the delivery of automatic enrolment since its inception.

The evaluation of the reforms is delivered by a cross Government steering group. It is now structured around seven key Evaluation Questions which will assess the effects of the reforms against the policy objective of getting more people to save more for their retirement; and the long-term objective to increase pensioner incomes, reduce pensioner poverty and improve living standards for pensioners.

The following sections set out: the broad policy context; the key benefits and costs to individuals, employers, industry and Government; the evaluation approach; the reporting strategy; and sources of information.

1.1 Policy context

Automatic enrolment was a response to some of the key challenges facing the UK pensions system. In particular, demographic changes (such as increased life expectancy) and under-saving for retirement are likely to mean that some individuals do not save enough to deliver the income they want or expect in retirement.

The reforms aimed to transform the culture of saving in the UK and significantly increase both the number of people saving for retirement and the amount that is being saved, through the introduction of the following legislative frameworks:

- new duties on employers to automatically enrol eligible jobholders into a qualifying pension arrangement and make a minimum contribution of one per cent on a band of earnings (of minimum two per cent total contributions), increasing to a minimum contribution of three per cent (of an eight per cent total) in April 2019;
- a proportionate, risk based compliance regime delivered by The Pensions Regulator to ensure employers understand and comply with their new obligations;
- a pension scheme delivered by NEST Corporation to provide a suitable savings vehicle for those earners for whom the existing private pensions industry did not offer a suitable product.

The success of the reforms will continue to depend on the delivery of this legislation, alongside communications activity that aims to create and maintain positive attitudes amongst individuals, employers and other stakeholders, to make automatic enrolment a success.

The timetable for automatic enrolment is summarised in Figure 1.1.

Figure 1.1 Timetable for automatic enrolment

November 2008

Pensions Bill 2008 achieved Royal Assent

January 2009

NEST and The Pensions Regulator: beginning of procurement process

March 2009

Consultation on first batch of regulations

September 2009

Consultation on second batch of regulations

September 2010

Independent *Making Automatic Enrolment Work* review

January 2011

Pensions Bill 2011 introduced in the House of Lords

2011

Consultation on secondary legislation package

2011

Progressive launch of NEST

2012

Launch of employer duties (staging), NEST and the compliance regime delivered by The Pensions Regulator

October 2017

Start of instant duties for new employers

December 2017

Automatic enrolment review

February 2018

End of staging (last stage of new employers from 2012-2017)

April 2018

Phasing first stage (five per cent minimum total contribution)

April 2019

Phasing second stage (eight per cent minimum total contribution)

April 2019 onwards

Total contributions being made at eight per cent minimum

1.2 Key benefits and costs

1.2.1 Individuals

The key objective of automatic enrolment is to increase incomes in retirement, particularly for moderate-to-low earners. This can be broken down into two key policy objectives:

- **Increasing the number of savers**:
  Current estimates suggest that automatic enrolment will ultimately increase the number of people newly saving or saving more into a workplace pension to over 10 million by 2019/20.[2] The NEST Corporation's annual report for 2016/17[3] confirmed that NEST had 4.5 million members as at the end of March 2017.

- **Increasing savings**:
  Current projections predict that by 2019/20 there will be £20 billion extra savings in workplace pensions per year as a result of automatic enrolment.[2] The annual total amount saved for eligible employees in public and private sectors stands at £87.1 billion in 2016, which is an increase of £3.8 billion from 2015.[4]

The main aim of pension saving is to smooth an individual's income between work and retirement. Automatic enrolment and the associated higher levels of pension saving have enabled individuals to transfer income use from a period in life where someone is earning (working life) to one where they have no earnings (retirement). Although not the same as an actual increase in financial wealth, we estimated that the social welfare benefit from increased well-being could be equivalent to that received from an increase in wealth of approximately £40 to £60 billion up to 2050.[5]

Protected groups

Automatic enrolment has had an impact on pension participation within groups protected under the Equality Act 2010, notably relating to:

Gender: the reforms have enabled more women to save more for retirement. Pension participation rates of male and female eligible employees were exactly the same in 2016 in both the public and private sector.[4]

[2] DWP. (2017a). *Automatic Enrolment Review 2017: Analytical Report*.

[3] NEST. (2017). *National Employment Savings Trust Corporation annual report and accounts 2016-17.*

[4] DWP. (2017b). *Workplace pension participation and saving trends: 2006 to 2016.*
The amounts saved will increase further in 2018/19 and 2019/20 as minimum contribution rates increase.

[5] A full assessment of the costs and benefits are outlined in the DWP (2010) Impact Assessment *Workplace Pension Reform Regulations Impact Assessment* and in Johnson, P., Yeandle, D. and Boulding, A. (2010) *Making Automatic Enrolment Work* review. The estimates presented here are the same as those presented in the DWP (2011a) Impact Assessment *Pensions Bill – Impacts – Annex B: Workplace Pension Reform*, and are based on 100 per cent of workers working for a firm that complies with the policy. Figures are expressed in 2011/12 earnings terms, and outcomes are dependent on reasonable investment returns. We plan to update social cost and benefit estimates once implementation is complete.

Race: the reforms were expected to have a disproportionately positive impact on black and ethnic minority employees who are over-represented in the moderate-to-low earners group and prior to the reforms were therefore less likely to participate in a pension with a three per cent or more employer contribution. Since 2012, statistics have shown that across all minority ethnic groups, there has been an increase of at least 11 percentage points. Among some groups this increase has been even higher, for example Black, Pakistani and Bangladeshi ethnicities have seen a 15 percentage point increase in workplace pension participation. [4] However, White British households are still the most likely to receive pension income, and to receive the highest amounts of pension income (including both state and private pension income).[6]

Disability: the reforms were predicted to have the same effect on both disabled and non-disabled employees, since disabled employees are just as likely as non-disabled employees to participate in private pension saving. From the most recent figures there is little difference between disabled and non-disabled employees, with 73 per cent of disabled eligible employees saving in 2015/16, compared to 72 per cent of non-disabled eligible employees. [4]

Age: the reforms have had a disproportionately positive impact on younger employees who were significantly less likely to participate in private pension saving prior to these reforms. The opt-in process has enabled employees outside the eligible age group (under 22 or over State Pension age) to participate in private pension saving as well. In 2016, official statistics showed that while pension participation has increased in every age group, the largest increases were amongst the eligible employees in the lowest age groups in both the private and public sector. [4]

1.2.2 Employers

Before 2012, around only 12 per cent of private sector employers provided a pension for their employees with a pension contribution.[7] These were typically larger employers, usually in manufacturing, information and communication, transport and storage, and finance and insurance sectors, sometimes restricted to certain groups of employees (such as those with a minimum seniority, age or job tenure).[7]

Employers' ability to manage the costs for complying with their duties depends partly on the employers' experience of pension provision, the scale of the additional costs, their ability to absorb extra costs into their profits, and their ability to pass the costs on to workers or consumers. Employers' decisions are likely to be based on the economic climate and labour market at the time of decision making.

There is therefore a risk that employers may 'level down' contributions to the minimum, causing a reduction in some employees' pension provision. Whilst analysis shows that the rate of levelling down has increased slightly since 2012,[8] recent analysis by the IFS[9] does

[6] Cabinet Office. (2017). *Race Disparity Audit.*

[7] DWP. (2012). *Employers' Pension Provision Survey 2011.*

[8] DWP. (2016). *Automatic enrolment evaluation report 2016*.

not find any evidence that this is a result of automatic enrolment. The Employers' Pension Provision Survey 2017 asked employers who said that automatic enrolment had increased their total pension contributions what their organisation had done to absorb this cost. Emerging findings suggest that around one in nine (11 per cent) had implemented lower wage increases, with nearly half (48 per cent) saying they had taken a reduction in profits and 11 per cent saying they had increased prices. Most (70 per cent) said they had absorbed it as part of 'other overheads'.[10]

DWP analysis shows that the additional employer contributions are estimated to be £7.4 billion per year, once contributions are fully phased in.[11] The additional administration costs for employers were estimated to be £446 million in the first year and £126 million per year after that.[12]

1.2.3 Industry

The introduction of automatic enrolment has impacted on existing and new businesses within the financial services industry. This industry has benefited from substantial new business opportunities from groups that had previously not engaged with private pensions. There has also been an increase in the number of master trusts as a result of new savers, particularly at smaller employers, being automatically enrolled into private pensions.

NEST was required to have a Public Service Obligation, to provide a safety net for small employers whose needs may not have been catered for by existing pension providers. Intermediaries have also had a considerable increased responsibility in the implementation of automatic enrolment within small companies, as they seek guidance on how best to comply with legislation.

The Pensions Regulator has established a team dedicated to engaging with key suppliers of automatic enrolment products or services, such as pension providers, payroll software providers, accountants, payroll bureaux and financial advisers. This includes the directly regulated, such as Master Trust providers, as well as those who have client employers with automatic enrolment duties. Support is provided via various means including events, webinars and email.

TPR also works closely with a number of professional bodies, employer bodies and key networks and associations to ensure that key messages about automatic enrolment, and the support available for industry, reaches as much of the intended audience as possible.

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[9] Cribb, J. and Emmerson, C. (2016). *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK.*

[10] These proportions may differ from full final survey findings, which will be published in 2018.

[11] DWP. (2017a). *Automatic Enrolment Review 2017: Analytical Report*.

[12] DWP. (2011b). Written evidence submitted by the Department for Work and Pensions to the Work and Pensions Select Committee.

1.2.4 Government

Costs to Government arise from The Pensions Regulator's compliance regime, the cost of communications and marketing activity, minor administrative costs associated with managing the delivery of automatic enrolment, costs as an employer, and the impact of automatic enrolment on tax relief and revenues (mainly increased tax relief paid on pension contributions). The Government also loaned money for the set-up and operation of NEST Corporation.

Costs also depend on employers' response to the reforms. As noted above, employers have responded in various ways to the reforms, for example by absorbing the increased contribution costs as part of their overheads. This may then reduce associated forms of tax paid.

The costs to Government from tax relief and potential Income Tax and National Insurance revenue reductions will be partially offset by increased future tax receipts paid on higher pension incomes.

2 Evaluation approach

2.1 Refreshing the evaluation strategy

The 2016 Automatic Enrolment evaluation report set out a plan to refresh the 2011 Workplace Pension Reforms Evaluation Strategy. We used the 2017 review of automatic enrolment as an opportunity to review the evidence surrounding the policy and revise the evaluation approach in order to ensure it continues to reflect the key evidence needs of DWP and its strategic delivery partners.

As part of this process, we created a logic map for automatic enrolment. Logic maps are used to describe the relationship between the inputs, outputs, outcomes and impacts of any policy intervention. This allows assumptions about links between elements to be tested to see whether impacts can be attributed to the policy or individual inputs (resources such as time, money, people) or outputs (activities such as guidance, training, regulations). Guidance on the role of logic maps, and how to construct them, is available via the HM Treasury Magenta Book.[13]

We held a workshop with stakeholders to document the individual elements associated with automatic enrolment, taking into account the situation before the policy was implemented, and other changes that have emerged since automatic enrolment was introduced.

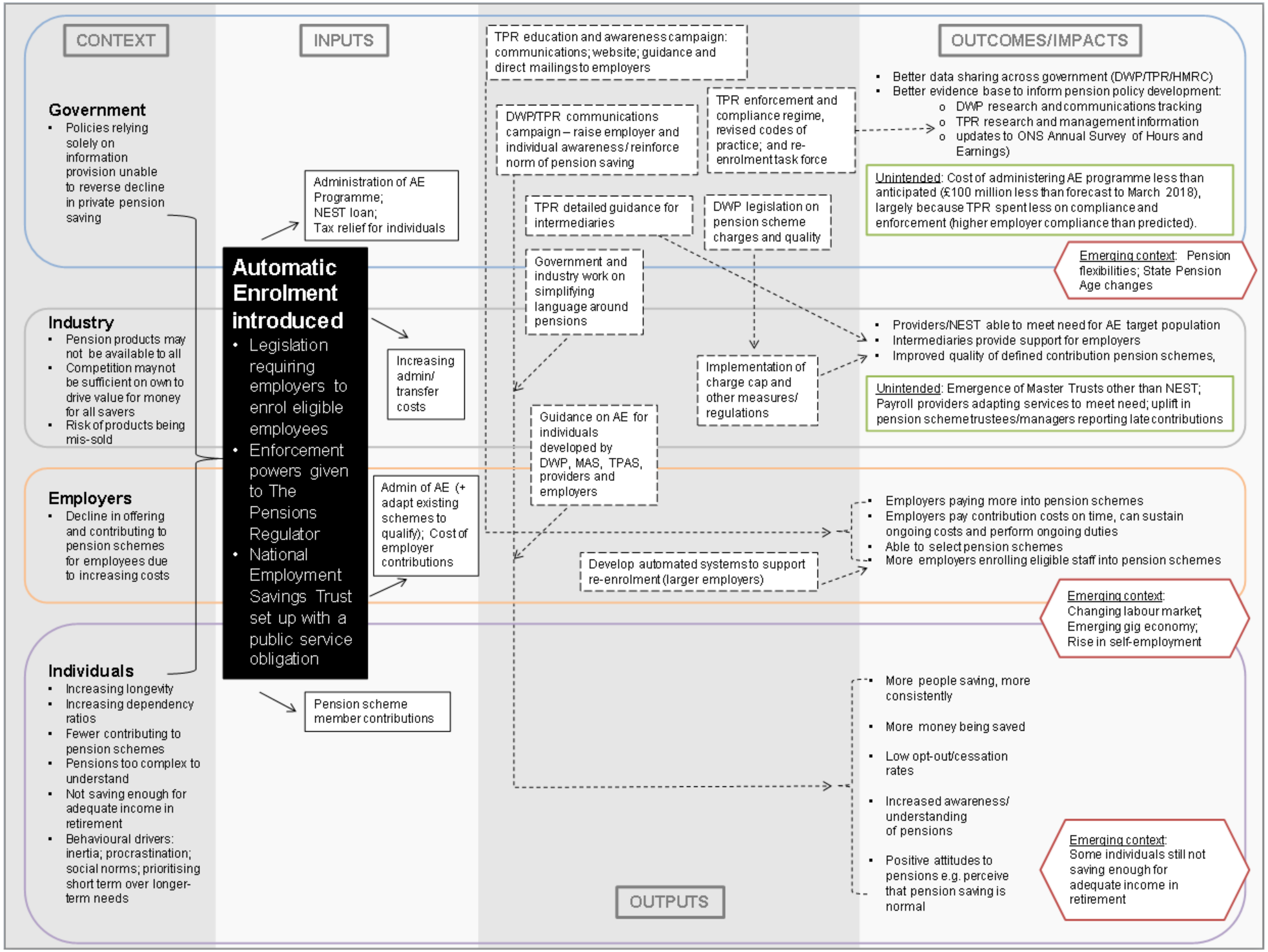
Figure 1.2 contains the logic map that was designed and refined following the workshop. Abbreviations used within the logic map include:

AE	Automatic enrolment
DWP	Department for Work and Pensions
HMRC	Her Majesty’s Revenue and Customs
MAS	Money Advice Service
NEST	National Employment Savings Trust
ONS	Office for National Statistics
TPAS	The Pensions Advisory Service
TPR	The Pensions Regulator

The logic map helped us review where evidence existed about relationships between the elements included in the map, and where there may be gaps in the future. This was then used to update and revise the existing Evaluation Questions from the 2011 Workplace Pension Reforms Evaluation Strategy.

[13] HMT. (2011). *Magenta Book.*

Figure 2.1 Automatic enrolment logic map



2.2 Evaluation Questions[14]

The evaluation of automatic enrolment is delivered by a cross Government steering group. It is structured around seven key Evaluation Questions which assess the effects of the reforms against the intermediate policy objective of getting more people to save more for their retirement; and the long-term objective to increase pensioner incomes, reduce pensioner poverty and improve living standards for pensioners. Following the 2017 review of automatic enrolment, these revised Evaluation Questions will feed into any future reviews of automatic enrolment and any subsequent changes to legislation.

The Evaluation Questions seek to understand the effectiveness of the rollout of automatic enrolment to date, the impact of the planned increase in minimum contribution rates (phasing) and how to maximise the effectiveness of this major reform, to ensure that automatic enrolment represents value for money for the taxpayer while putting minimal burden on employers.

These Evaluation Questions (EQs) are outlined below:

- **EQ1: Do established delivery mechanisms support automatic enrolment objectives?**

  This evaluates the delivery of NEST; The Pensions Regulator's compliance regime; and the DWP, NEST and the Regulator's communication strategies in relation to the continued delivery of automatic enrolment objectives. EQ6 (see below) evaluates the role of other pension providers, payroll providers and intermediaries within the pension industry.

- **EQ2: Do employers know about, understand and comply with their employer duties?**

  This evaluates the extent to which employers are aware of, and know how to discharge their automatic enrolment duties. It will monitor the types of enforcement activity carried out by the Regulator, such as compliance notices, statutory notices, fixed penalties and escalating penalties. It will also look at how employer behaviour is influenced by attitudes and understanding of the reforms.

- **EQ3: Has automatic enrolment increased the number of individuals saving in workplace pensions, and if so, how?**

  This evaluates whether automatic enrolment continues to maintain or increase the number of individuals saving into a workplace pension. It will analyse how many individuals opt out or cease saving and what factors influence employees' behaviours, and the effectiveness of communication strategies in 'normalising' pension saving. Within this, it will look at patterns by different characteristics such as gender, age, ethnicity and disability.

[14] See Appendix A for the full list of evaluation questions.

- **EQ4: Has automatic enrolment increased the amount being saved in workplace pensions, and if so, how?**

  This evaluates whether automatic enrolment has achieved the policy objective of getting people to save more for their retirement, and the longer term objective of reducing pensioner poverty and improving living standards for pensioners. It will explore the amount being saved, whether employers have reduced contributions for existing members, and if employees pay the minimum contribution in their pension or voluntarily pay more. Within this, it will look at patterns of saving among different groups.

- **EQ5: To what extent is delivery of automatic enrolment achieved with a minimal burden on employers?**

  This evaluates the contribution costs and administrative burden to employers of complying with their initial and ongoing duties. It will also look at how employers respond to these costs, how they make decisions around which qualifying scheme to use, their level of contribution, use of easements such as waiting periods, and response to ongoing duties such as re-enrolment. It will also assess employer views on the level of burden and guidance on automatic enrolment.

- **EQ6: How has the pensions industry reacted to automatic enrolment?**

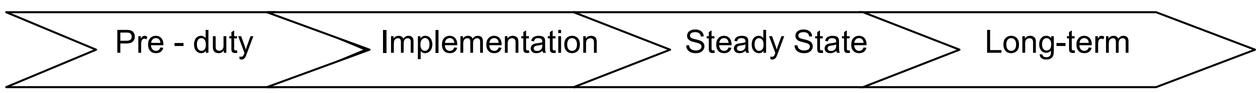
  This evaluates how the pension industry and charging structures and levels have changed, as well as support provided by intermediaries to employers, since the introduction of automatic enrolment. It will also assess the challenges associated with enrolling employees and following compliance guidance from The Pensions Regulator through automatic enrolment.

- **EQ7: What are the wider impacts of automatic enrolment?**

  This evaluates whether there are any wider impacts of automatic enrolment on individuals, employers, industry or Government, including any benefits or unintended consequences.

2.3 Stages of evaluation

Evaluation has been carried out on a yearly basis to assess progress of the implementation of automatic enrolment. The key stages of evaluation are summarised below:



Implementation: during this period employer duties have been introduced through staging of employers. The first step staged large employers, followed by medium and then small and micro employers. Currently we are staging employers who became employers between 2012 and 2017, which will be completed in February 2018. The second step is to increase minimum employer and total contributions in April 2018 and April 2019 (phasing). During this period we have monitored progress to identify how automatic enrolment is being delivered and how this matched the Government's intermediate policy objective of getting more people to save more for their retirement.

Steady state and long-term: during steady state, we expect automatic enrolment to be operating according to the policy intent. In this period we will monitor progress against the policy objective of increasing the number of people saving for retirement and the amount being saved, as well as other effects of automatic enrolment, such as the burden on employers and industry. In the long-term, we would expect to see impacts on retirement incomes, through a reduction in pensioner poverty, and an improvement in living standards for pensioners who have saved.

2.4 Measurement approach

Measuring the impact of the reforms will be achieved by either the measurement of a baseline, a counterfactual or both. The approach used will change with the refreshed Evaluation Questions and the information available, including new research and data obtained through the initial five years of implementation.

2.4.1 Baseline and counterfactual

Baseline: this sets a marker against which progress will be measured, at different points in time, depending on the nature of the question and the availability of information.

Counterfactual: in order to evaluate the effects of pension reforms, we must first establish how the pension landscape would look if the reforms had never happened. Comparing the actual pension landscape against this hypothetical 'no reforms' scenario enables us to attribute any effects to just the reforms, and not to any other confounding factors, such as population growth, and prevailing pension trends.

2.4.2 Sources of information

The evaluation will continue to draw on a range of information across different organisations, such as Management Information reports, stakeholder discussions, existing continuing surveys of individuals and employers, panel data, models and where appropriate, research commissioned by DWP.

On this basis, the evaluation represents value for money for the taxpayer, as it draws on existing information sources as far as possible. For example the Office for National Statistics' longitudinal *Annual Survey of Hours and Earnings* is used to measure several questions including overall membership, persistency of saving and whether there is levelling down of employer contributions. The Appendix summarises the main information used to evaluate the effects of the reforms. This is based on our understanding of the information available, at the point of publication.

2.5 Reporting

Since the initial Workplace Pension Reforms Evaluation Strategy in 2011, automatic enrolment evaluation reports evaluating the success of the reforms have been published annually. Additionally, new research has been published where there were gaps in information or areas of delivery that looked potentially challenging.

Some examples include:

- biennial Employers' Pension Provision Surveys;[15]
- qualitative research with large[16], medium-sized[17], small and micro[18] employers on automatic enrolment; and
- Workplace Pension Participation and Savings Trends of Eligible Savers Official Statistics[19], annually since 2014.

The next evaluation report will aim to measure progress against these modified Evaluation Questions and will seek to compare outcomes amongst a range of different groups. The next evaluation report on automatic enrolment will be in 2018, which will pick up the first increase in statutory minimum contributions in April 2018.

Once staging and phasing is complete and we move into steady state we expect to review plans for evaluation report publications. For example, this may include publishing evaluation reports on a biennial basis in line with future waves of the Employers' Pension Provision Survey. Within this, we would also seek to agree an appropriate point for one of the evaluation reports to be, or be accompanied by, a Post Implementation Review.

The content of the reports will also be guided by a number of other regulations and protocols, including:

- Equality Act 2010: the reports aim to compare outcomes across all protected groups to allow an equality and diversity evaluation of the reforms. Following the Equality and Human Rights Commission guidance, if quantitative data is not available for some protected groups, alternative information sources will be explored, for example stakeholder discussions.
- Government Transparency Agenda: openness and transparency has the potential to transform government, strengthening people's trust and encouraging greater public participation in decision-making. Transparency is also a key part of the Government's efficiency and reform agenda. Freeing up public data and putting it in people's hands can help them have more of a say in the reform of public services. The reports are intended to support this agenda.

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[15] Published at https://www.gov.uk/government/collections/employers-pension-provision-survey

[16] Wood *et al*. (2013). *Automatic enrolment: Qualitative research with large employers.*

[17] Wood *et al*. (2015). *Automatic enrolment: Qualitative research with employers staging in 2014.*

[18] Wood *et al*. (2017). *Automatic enrolment: Qualitative research with small and micro employers.*

[19] Published at https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

- Code of Practice for Official Statistics: the Statistics and Registration Service Act 2007 created the UK Statistics Authority and empowered it to determine, and assess compliance with, a Code of Practice for official statistics.[20] The code provides a statement of good practice that will be adhered to as far as possible. Many of the sources of information referred to in the Appendix are existing official statistics.

As well as specific reporting, information will continue to be made public through publications linked to each of the data sources used in the evaluation.

2.6 Review

The Evaluation Strategy has been developed by a cross Government steering group that includes representatives from across the DWP, NEST, The Pensions Regulator, HM Treasury and the Office for National Statistics.

The precise content of reports has been reviewed on an ongoing basis by this group in the context of the Evaluation Questions and the latest available information. Evidence gathered to meet the commitments made as part of the 2017 review of Automatic Enrolment may also be included in these reports. The group will also consider the impact of any future policy changes, and will address as far as possible, questions raised by stakeholders.

[20] Further information on the Code of Practice for Official Statistics is outlined in https://www.statisticsauthority.gov.uk/osr/code-of-practice/

Appendix A – Evaluation Questions

EQ1: Do established delivery mechanisms support automatic enrolment objectives?

EQ1.1. Does NEST accept all employers who choose the scheme, while offering low costs to members and remaining financially viable?

EQ1.2. How has The Pensions Regulator helped to maximise employer compliance with their automatic enrolment duties?

EQ1.3. How do automatic enrolment communications support the objectives of automatic enrolment?

EQ2: Do employers know about, understand and comply with their employer duties?

EQ2.1. To what extent are employers aware of their duties and know how to discharge them?

EQ2.2. How many employees are treated in a 'compliant way' by their employer?

EQ2.3. To what extent do employers have arrangements with a qualifying scheme?

EQ2.4. To what extent is employer behaviour influenced by their attitudes, awareness and levels of understanding of the reforms?

EQ2.5. To what extent are employers aware of the enforcement powers available to deal with non-compliance and the approach The Pensions Regulator takes?

EQ2.6. To what extent do detection and enforcement activities result in non-compliant employers becoming compliant and do they support a broader culture of compliance?

EQ2.7. To what extent do employers go beyond their minimum duties, for example by paying above minimum contribution rates? Which employers do this, and why?

EQ3: Has automatic enrolment increased the number of individuals saving in workplace pensions, and if so, how?

EQ3.1. To what extent are individuals saving persistently in a workplace pension?

EQ3.2. How many individuals that were automatically enrolled or re-enrolled have opted out of a qualifying scheme?

EQ3.3. How many individuals that were automatically enrolled or re-enrolled have ceased saving in a qualifying scheme?

EQ3.4. Why do individuals opt out or cease saving in a qualifying scheme, and how does this relate to their characteristics and circumstances?

EQ3.5. How many individuals who are not eligible for automatic enrolment have been automatically enrolled, and why?

EQ3.6. To what extent do individuals accept the need, and/or recognise the benefits of, saving into a workplace pension?

EQ3.7. To what extent do individuals perceive workplace pension saving as normal, both for employees in general and for employees like themselves?

EQ3.8. To what extent can individuals access information on automatic enrolment and workplace pension saving?

EQ3.9. To what extent can individuals understand information they are given on automatic enrolment and workplace pension saving?

EQ3.10. Which individuals are contributing more than the minimum employee contributions, and why?

EQ4: Has automatic enrolment increased the amount being saved in workplace pensions, and if so, how?

EQ4.1. How has automatic enrolment changed how much employers contribute to workplace pensions?

EQ4.2. How has automatic enrolment changed how much employees contribute to workplace pensions?

EQ4.3. Do contributions to pension saving impact on other forms of household saving or spending, and if so, how?

EQ5: To what extent is delivery of automatic enrolment achieved with a minimal burden on employers?

EQ5.1. What are the contribution costs for employers of complying with their duty?

EQ5.2. What are the administrative costs for employers of complying with their duty?

EQ5.3. How do employers respond to the costs incurred as a result of the employer duty?

EQ5.4. How do employers make decisions around which qualifying scheme to enrol members into, and how much to contribute?

EQ5.5. What are the views and attitudes of employers to the level of burden resulting from the reforms?

EQ6: How has the pensions industry reacted to automatic enrolment?

EQ6.1. What is the industry doing to protect the interests of employers, and employees and their savings?

EQ6.2. What challenges have providers faced in providing pensions for automatically enrolled employees?

EQ6.3. To what extent do providers follow The Pensions Regulator's guidance on the reforms?

EQ6.4. Do intermediaries have the knowledge to be able to support the delivery of automatic enrolment to new employers?

EQ7: What are the wider impacts of automatic enrolment?

EQ7.1. What are the wider impacts of automatic enrolment on individuals, including any benefits and unintended consequences?

EQ7.2. What are the wider impacts of automatic enrolment on employers, including any benefits and unintended consequences?

EQ7.3. What are the wider impacts of automatic enrolment on industry, including any benefits and unintended consequences?

EQ7.4. What are the wider impacts of automatic enrolment on Government, including any benefits and unintended consequences?

Appendix B – Sources of information

The evaluation of automatic enrolment draws on existing information sources as far as possible. If no suitable data source exists, DWP will consider commissioning quantitative and/or qualitative discrete research of individuals, employers and industry. This will be reviewed on a case by case basis to ensure value for money for the taxpayer.

The main surveys, administrative data, and reports based on Management Information we use to evaluate automatic enrolment are summarised below. This is based on our understanding of the information available at the point of publication, and may be subject to change.

Surveys and administration data

DWP Communication Tracker, GB: information on the impact of communications activity and intended behaviours as a result. The survey is used to measure the effectiveness of the automatic enrolment communications strategy. Ad hoc research. At: https://www.ipsos.com/ipsos-mori/en-uk/workplace-pensions-research-exploring-attitudes-and-behaviour

DWP Employers' Pension Provision Survey, Biennial, 2007 onwards on a consistent basis, GB: information on the nature of pension provision in the private sector, extent of employee membership and employee and employer contribution rates. The survey is used to measure several questions, including the pension landscape and whether there is a levelling down of employer contributions. At: https://www.gov.uk/government/collections/employers-pension-provision-survey

DWP Family Resources Survey (FRS), Annual, 2003/04 onwards, UK: information on the incomes and circumstances of private households. The FRS supports key analyses of participation based on the Annual Survey of Hours and Earnings (ASHE), in particular information for all adults (i.e. not just employees) and information to enable us to evaluate against protected characteristics not covered by ASHE (race, religion or belief, disability, and sexual orientation). At: https://www.gov.uk/government/collections/family-resources-survey--2

DWP Pension Charges Survey, GB: research into trust-based defined contribution schemes, group personal pensions and stakeholder pensions. The research is used to assess charging structures and charge levels since the introduction of automatic enrolment. Ad hoc research. At: https://www.gov.uk/government/publications/pension-charges-survey-2016-charges-in-defined-contribution-pension-schemes

HMRC Real Time Information (RTI): we are developing the use of this data for the purpose of automatic enrolment analysis, which may form part of the ongoing monitoring and evaluation of automatic enrolment beyond the end of phasing.

NEST Management Information: aggregated information used to measure several questions, including NEST membership and persistency of saving in NEST. Annual reports include aggregated management information. At: https://www.gov.uk/government/organisations/national-employment-savings-trust

ONS Annual Survey of Hours and Earnings (ASHE), 1997 onwards, GB: information on the levels, distribution and make-up of earnings and hours worked for UK employees in all industries and occupations. The survey is used to measure several questions, including the overall membership, persistency of saving and whether there is levelling down of employer contributions. At: https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/previousReleases

ONS Occupational Pension Schemes Survey (OPSS), 2004 onwards, UK: information based on a sample of schemes in the public and private sectors. The survey provides a detailed overview of the nature of occupational pension provision, including membership of schemes, the nature of the benefits provided and contributions paid. This survey can be used to provide information on whether there is levelling down of employer contributions at a national level. Reports published annually. At: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/datasets/occupationalpensionschemessurvey

The Pensions Regulator Employer Tracker, UK: a survey designed to monitor employers' awareness, understanding, knowledge, attitudes and intended actions in relation to the reforms. The survey has been used to measure employers' awareness and understanding of the reforms. Ad hoc research. At: http://www.thepensionsregulator.gov.uk/doc-library/research-analysis.aspx

The Pensions Regulator Ongoing Duties Tracker, UK: a survey designed to monitor employers who have completed automatic enrolment and understand their awareness of, intentions regarding and attitudes towards ongoing and future duties relating to the reforms. The survey measures employers' ongoing duties in relation to re-enrolment, increases in the minimum pension contributions and their continuing duties. Ad hoc research. At: http://www.thepensionsregulator.gov.uk/doc-library/research-analysis.aspx

The Pensions Regulator Management Information: aggregated information used to measure several questions, including employers who register with the Regulator, employer compliance, and the types of enforcement activity carried out by the Regulator. Monthly reports on number of employers declaring compliance, quarterly bulletins on compliance, and annual commentary and analysis. At: http://www.thepensionsregulator.gov.uk/doc-library/research-analysis.aspx

Wealth and Assets Survey (WAS), five waves since 2006, GB: longitudinal information about the economic wellbeing of households and individuals, including pension provision, contribution levels, and attitudes to pensions. At: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/debt/qmis/wealthandassetssurveyqmi

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