



# Automatic Enrolment: Quantitative research with small and micro employers

By Trinh Tu, Jayesh Navin Shah, Graham Keilloh, Kelly Maguire, and Natasha Jones

## Introduction

This summary presents the key findings of a survey of small employers (with five to 29 workers) and micro employers (with one to four workers) on behalf of the Department for Work and Pensions (DWP). The survey covered employers who had automatically enrolled their staff into a qualifying workplace pension scheme between September 2016 and March 2017, and their experiences of this process.

## Background and objectives

Since the introduction of automatic enrolment duties in 2012, over nine million workers have been automatically enrolled into a workplace pension by their employer. All workers earning £10,000 or more, aged between 22 and State Pension age, and who ordinarily work in Great Britain under a worker's contract, are eligible for automatic enrolment. When enrolled, they can choose to opt out within the first month (on doing so, their contributions are usually returned to them), or later cease contributions if they wish. In the case of the latter, contributions are usually kept in a pension for them until they retire.

Small and micro employers largely began enrolling these staff from January 2016 onwards, taking responsibility for setting up and administering a qualifying workplace pension scheme.

This research broadly covers three areas:

- The employer experience when complying with automatic enrolment, including information and advice received, employer communications, and the financial cost and perceived administrative burden of implementing a qualifying pension scheme.
- Average opt-out and cessation rates, the motivating factors behind opt-outs, and characteristics of those opting out.

- Small and micro employer attitudes towards workplace pensions, automatic enrolment and the upcoming mandatory increase in minimum contributions.

The research aimed to quantify the qualitative findings from separate DWP research undertaken with small and micro employers in 2017. The earlier research interviewed micro employers (one to four workers) and small employers (five to 29 workers – excluding small employers with 30 to 49 workers), with a view to exploring the impact of automatic enrolment on the very smallest employers. This survey maintains the same definitions.

## Summary of methodology

A random-probability telephone survey was undertaken with 2,698 small and micro employers who had submitted their declaration of compliance to The Pensions Regulator (TPR). These were all employers who, at the point of complying, had fewer than 30 workers. Fieldwork took place between 17 July and 9 October 2017.

The data reported here are weighted by size and sector to be representative of this small and micro employer population.

## Key findings

**Small and micro employers were typically supportive of having workplace pensions for their staff. These positive attitudes were a factor – albeit a limited one – in workers staying in the workplace pension scheme when automatically enrolled.**

A large majority of these employers (81 per cent) agreed that workplace pensions were a good thing for their workers, and seven in ten (71 per cent) felt that the policy of automatic enrolment was a good thing. Three-

quarters (74 per cent) also viewed workplace pension provision as a social norm, agreeing that it was normal for their staff to have a workplace pension.

Two-thirds of employers (65 per cent) agreed it was their responsibility to encourage their staff not to opt out, but a lower proportion (54 per cent) viewed it as their duty to ensure that their staff could manage financially in their retirement.

Statistical regression analysis (among micro employers) found that: employer positivity towards workplace pensions, a strong sense of positive social norms around pension provision, and feeling that staff should be encouraged to remain saving, were all attitudes linked (although relatively weakly) to lower opt-out rates. Evidence of this impact was more limited among small employers, and for both groups, the research still suggests that other factors such as staff attitudes and personal circumstances may play a bigger role in these decisions.

**There was majority awareness and support for minimum employer contribution rates increasing to three per cent in April 2019 (from the current minimum of one per cent, and an initial increase to two per cent in April 2018).**

Eight in ten (78 per cent) were aware this would be taking place, and two-thirds (66 per cent) believed it was a good thing for their workers. Over two-fifths (44 per cent) believed they would find it easy to comply with this change, whereas three in ten (29 per cent) felt it would be difficult.

**Engagement with automatic enrolment and ongoing duties often involved intermediaries and guidance from TPR. Small and micro employers also typically engaged their staff in automatic enrolment in a range of ways.**

TPR was the most commonly cited source of information on compliance (recalled by 35 per cent), followed by accountants or finance firms (33 per cent) and pension providers (15 per cent). Accountants or finance firms were also the most common source of guidance (used by 49 per cent) when choosing a pension scheme. Three in ten employers each approached TPR (27 per cent) or pension providers (also 27 per cent) for such guidance.

The vast majority of small and micro employers

complied with the requirement to write to their workers informing them of automatic enrolment – just one in five (18 per cent) said they did not send any form of written communication (emails or letters) to staff. It was also very common for employers to use more than just written communications to inform their staff. The most common forms of non-written communication were one-to-one meetings (64 per cent) and face-to-face staff meetings (42 per cent).

**After automatically enrolling their staff, the majority of small and micro employers were making the minimum contribution to their workers' pensions. In this context, ongoing administration was considered easy to cope with by most.**

Just one-fifth (21 per cent) were contributing above the minimum requirement of one per cent, and most of these (16 per cent in total) were contributing more than three per cent.

Of the employers offering more than the minimum requirement, one-fifth (21 per cent) said they did so because they had already been contributing more than this prior to automatic enrolment – and the survey finds no strong evidence of levelling down of contribution rates (where employers with previous workplace pension schemes have made these less generous as a result of automatic enrolment). Three in ten (28 per cent) said they did this because they viewed higher contribution rates as a staff benefit or perk.

Small and micro employers held mixed perceptions on the ease of compliance for automatic enrolment. Over half (54 per cent) viewed compliance as easy whereas three in ten (28 per cent) found it difficult. The vast majority (81 per cent) of small and micro employers reported a financial cost to implementing automatic enrolment, with the median cost to date reported as £400 (a median of £200 for micro employers and £500 for small employers).

Despite this, the majority (70 per cent) found the ongoing administration of their workplace pension scheme or schemes easy to cope with. Two-thirds (64 per cent) said they faced ongoing costs for administering their workplace pension scheme. Nonetheless, any extra time commitment tended to be low, with three-quarters (72 per cent) committing less than half a day a month to these duties.

The most common way these employers absorbed any of the cost associated with automatic enrolment and ongoing duties was by reducing profits, or accepting it as part of an overall higher business overhead cost (45 per cent of all small and micro employers said they had to do this). Relatively few had lowered wage increases (six per cent) or increased prices (six per cent) to cope.

**A large proportion (85 per cent) of workers in small and micro employers stayed in their workplace pension following automatic enrolment, while 14 per cent opted out within a month, and two per cent ceased active membership after one month.<sup>1</sup>**

The opt-out rate was lower across small employers (13 per cent) than it was across micro employers (23 per cent). There were no observed differences in opt-out rate based on the way employers communicated automatic enrolment (although there were relatively small sample sizes for employers solely communicating via writing).

Those most likely to opt out within micro organisations specifically (where more worker-level data were collected) were: part-time workers (with a 27 per cent opt-out rate), older people (e.g. 28 per cent among those aged 50 to 59) and those who had worked at the employer for a longer period (27 per cent among those working for the same employer for ten or more years); as well as those at both the highest and lowest paid ends of the spectrum (27 per cent among those earning £10,000 to £20,000 a year, and 32 per cent among those earning £40,000 or more).

However, the research once more found that the impact of staff demographics alone was limited, and other factors not measurable in this survey, such as staff attitudes and personal circumstances, may be more important in explaining opt-outs.

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<sup>1</sup> It should be noted that the average opt-out and cessation rates quoted here are showing the average (mean) percentage of all workers in small and micro firms who opted-out or ceased contributing. This is different to the average opt-out rate across small and micro *employers*. As a worked example, if an employer with two staff had one of them opt out, and an employer with four staff had one of theirs opt out, the average *worker* opt-out rate would be 2/6 workers, or 33 per cent. The average opt-out rate across the two *employers* would be an average of 50 per cent and 25 per cent – in other words, 38 per cent. The approach taken in this research is consistent with the 2017 Employers' Pension Provision survey by DWP.

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The full report of these research findings is published by the Department for Work and Pensions (ISBN 978-1-5286-0554-0. Research Report 960. June 2018).

You can download the full report free from:

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[Socialresearch@dwp.gsi.gov.uk](mailto:Socialresearch@dwp.gsi.gov.uk)