

Employers and the workplace pension reforms:
Top line findings from desk research conducted in April 2008
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Work and Pensions



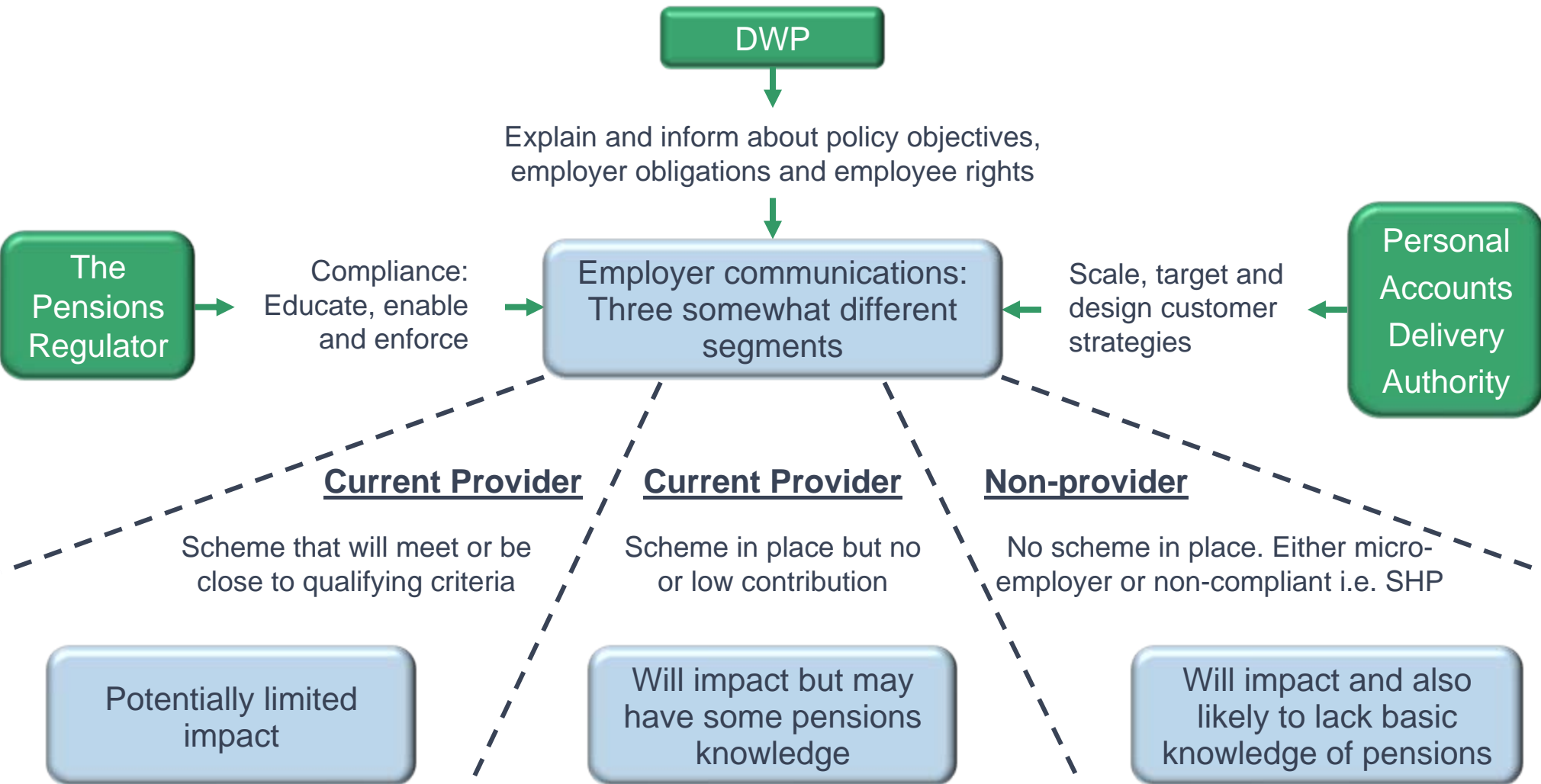
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- In 2012 the Government will introduce pension reforms which will include new employer obligations. The programme will include:
 - ◆ The introduction of a new occupational pension scheme, the personal accounts scheme, run at arm's length from Government by a sole corporate trustee
 - ◆ Automatic enrolment of eligible employees into a qualifying workplace pension scheme such as the personal accounts scheme
 - ◆ A compulsory employer contribution of at least 3% of qualifying income, alongside an employee contribution of 4% and tax relief equivalent to a further 1%
 - ◆ Employee right to opt-out
- The reforms will be developed and implemented by the Department for Work and Pensions (DWP), the Pensions Regulator (TPR) and the Personal Accounts Delivery Authority (PADA)
- To assist in planning the development and implementation of the reforms from April 2008, an urgent specific need was to understand more about both the present and likely future behaviour of employers
- As a starting point to meeting this need, and to help specify requirements for further primary research, a rapid top-line literature review of available public domain information was undertaken in April 2008
- Key findings from this review are reported in this summary presentation

Communicating pension reforms to employers



Mapping UK private sector employment & profiling pension provision

Pension provision by employers varies by company size

(EAS07)

- The universe of companies is highly skewed – a large number of small employers and a very small number of large employers
- micro-employers (those with fewer than 5 employees) are of particular interest as many will be drawn by the reforms into compulsory pension provision for the first time

micro-employers (1-4)

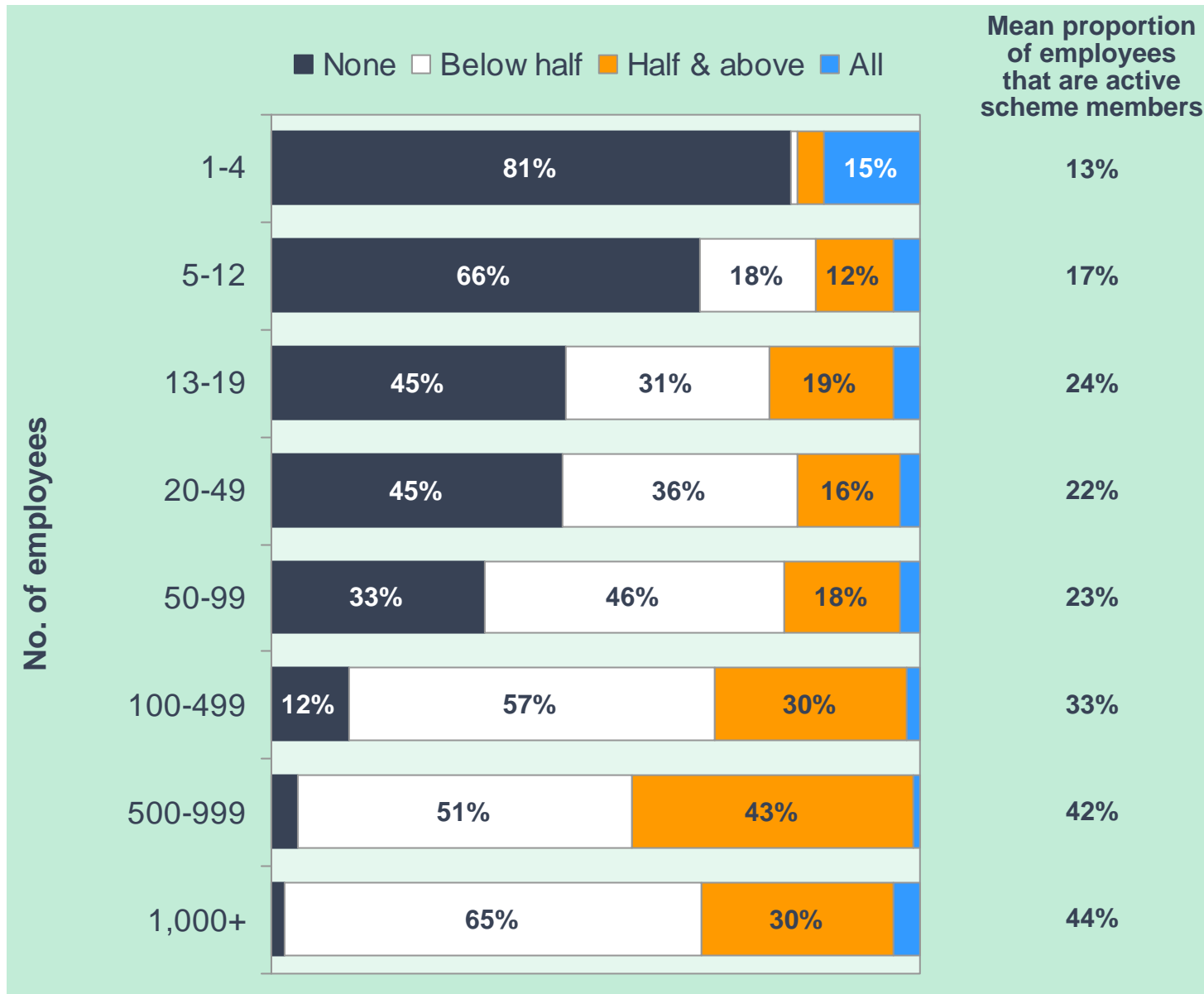
- **73%** of employers have fewer than five employees
- But they account for just **12%** of all employees
- Only **15%** of these employers currently have a pension scheme and contribute 3%+

Large employers (500+)

- Pension scheme provision is almost universal among these employers
- They represent only **1%** of all employers
- But between them they account for **53%** of all employees
- **91%** of these employers currently have a pension scheme AND contribute 3%+

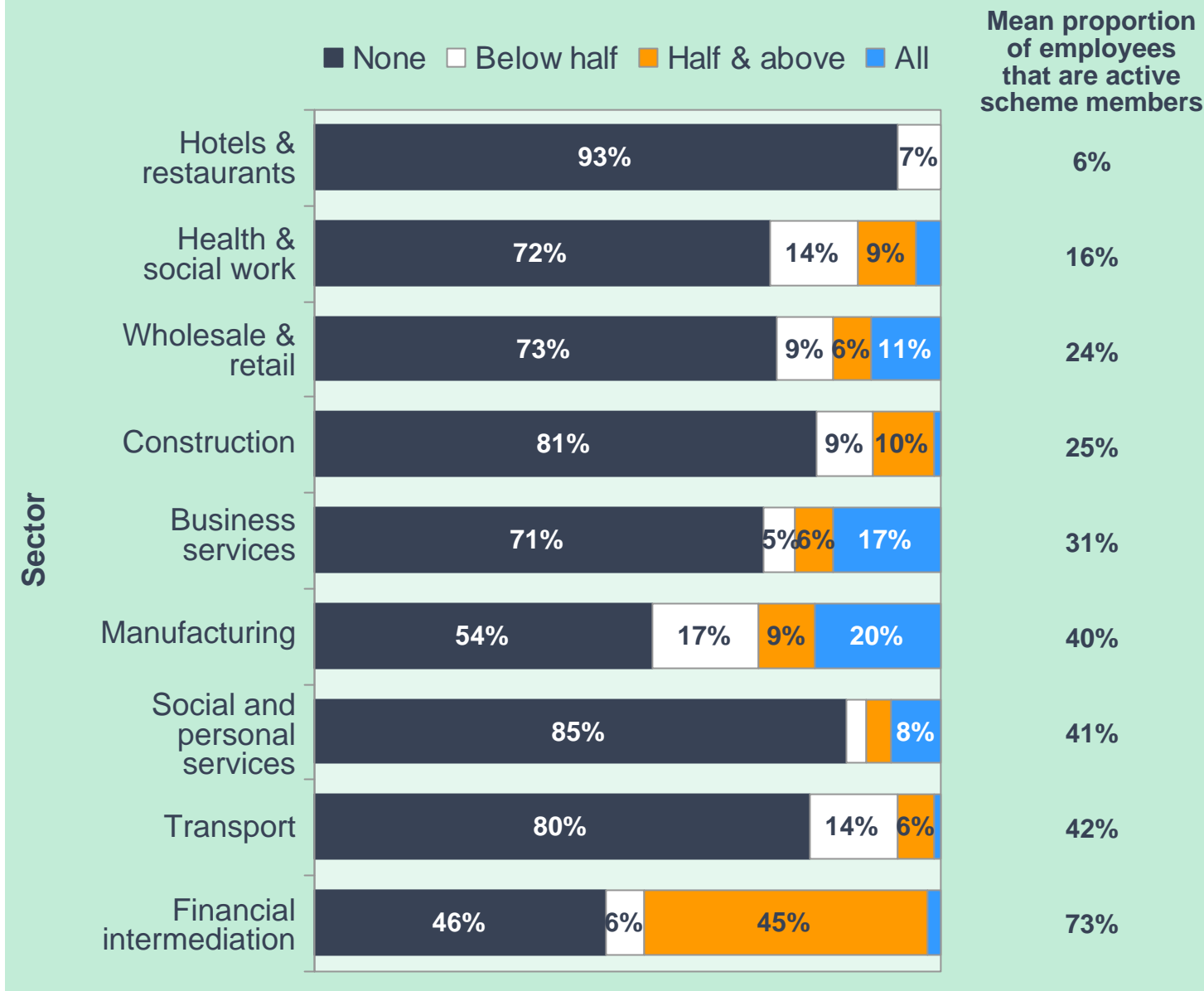
Figures from EAS07

The proportion of employees that are active members varies with employer size (EPP 07)



- Overall, just under three-quarters of companies (74%) have no active pension scheme members
- At the other end of the scale, in 11% of companies all employees are active members
- In aggregate, 31% of all employees are active scheme members

The proportion of employees that are active members varies by sector (EPP 07)



- The lowest proportion (6%) is in the hotel & restaurant industry, compared with the highest (73%) in the finance sector
- Employers are most likely to experience 100% take-up in manufacturing (20%) and business services (17%)
- Some caution should be exercised when interpreting these figures as they are based on a low number of observations

- Overall, 18% of employers currently have a scheme and contribute the minimum qualifying amount of 3% or more

No. of employees	No provision	No contribution	Contribute below 3%	Contribute 3%+
1-4	74%	9%	1%	15%
5-49	32%	41%	3%	23%
50-249	6%	28%	3%	59%
250-499	1%	17%	4%	77%
500+	0%	4%	5%	91%
Total	62%	17%	2%	18%

Figures do not sum to 100% as Table excludes those who contribute but at an unknown rate

Contributing at a level of 3% or more does not in itself mean that a scheme would meet the qualifying criteria

Why employers do or do not provide pensions now

Main employer reason for providing pensions varies by company size: From paternalism to coercion to recruitment & retention benefits

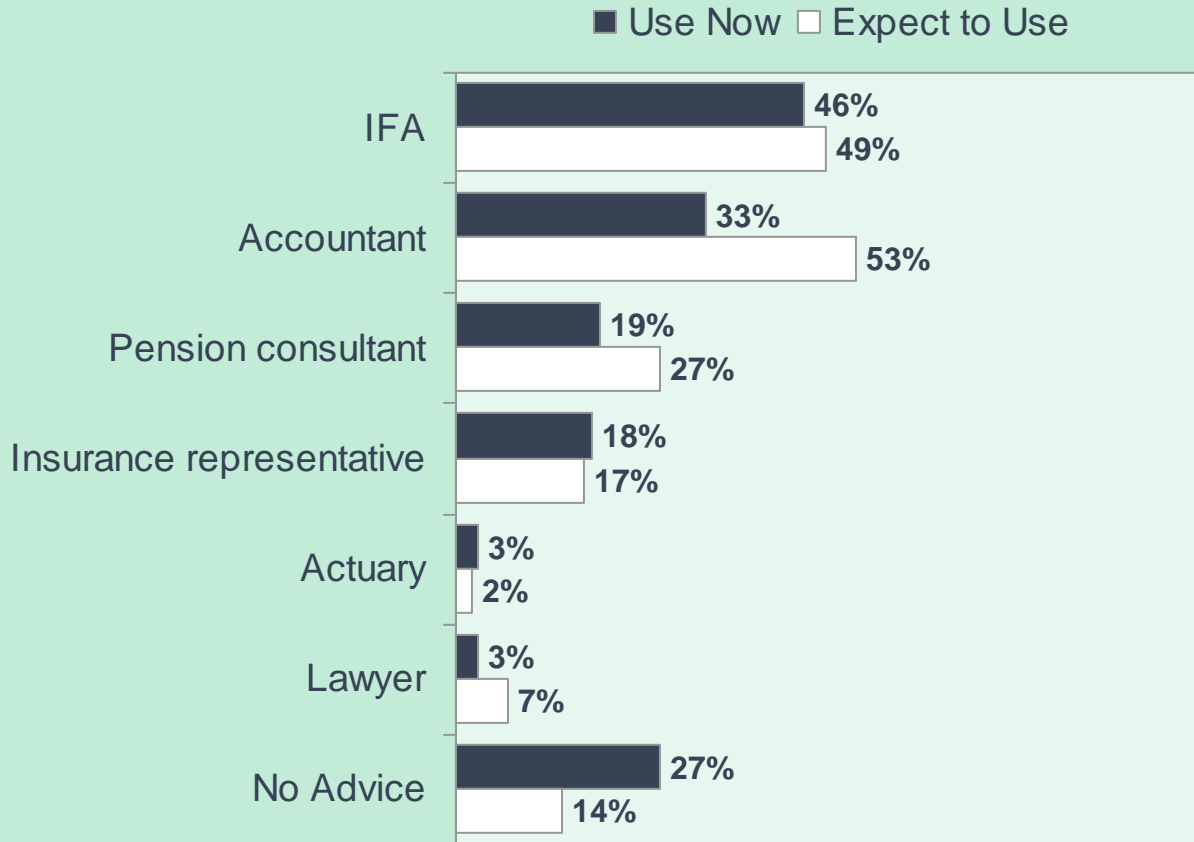
	EAS 07					
	All	No. of employees			Contribute	Do not contribute
		1-4	5-49	500+		
Coercion – legal requirement	30%	16%	48%	5%	12%	53%
Paternalism – look after employees in retirement	31%	42%	17%	31%	40%	18%
Economic – retention	9%	8%	8%	17%	11%	5%
Employees value pensions	5%	5%	4%	27%	9%	1%

- Organisations with 5-49 employees were the most likely to cite legal requirements as the main reason for providing a pension (48%)
- Firms with 1-4 employees were most likely to cite looking after employees in retirement as the main reason (42%)
- Larger firms were more likely to mention employees valuing pensions and recruiting and retaining staff

- Employers that do not provide access to a pension are almost exclusively micro (1-4 employees) or small (5-49 employees)
- The most frequently mentioned reasons for non-provision are that the company is too small or too young, or is a family business
 - ◆ These reasons were given by 61% of micro-employers without schemes; and by 32% of small employers without schemes
- Cost objections were mentioned by 23% of micro-employers and 19% of small employers
- Lack of interest in a pension on the part of staff was mentioned by 5% of micro-employers and 23% of small employers
- Just under a third (29%) of small employers also mentioned that the profile of their workforce makes pension provision either difficult or inappropriate (e.g. temporary staff; part-time staff; high staff turnover; low paid staff)
 - ◆ These reasons were given much less frequently by micro-employers (6%)

The role of advisers/ intermediaries

EAS07 – Employers current, and expected, sources of advice regarding how to respond to new pension requirements



- Those employers who currently make pension provision were asked what sources of external advice they use currently and which they expect to use to assist them in deciding how to respond to the new requirements
- The results suggest that overall the use of most types of external adviser is likely to increase

Expected sources of advice on how to respond to reforms vary by company size (EAS07)

Percentage of employers that will seek advice

	No. of employees					
	1-4	5-49	50-249	250-499	500+	All
Accountant	67%	62%	38%	18%	35%	65%
IFA	36%	47%	51%	33%	33%	39%
Pensions consultant	24%	28%	44%	32%	40%	26%
Employer bodies	19%	18%	16%	19%	25%	18%
Insurance/ life company	13%	17%	22%	17%	29%	15%
Lawyer/ legal advisor	11%	12%	15%	16%	37%	12%
Actuaries	3%	2%	13%	15%	45%	3%
No advice	16%	10%	9%	23%	33%	15%

Employers were able to give more than one response

- Micro & small companies often expect to rely heavily on their accountant
- Medium & large companies will often look to IFAs for guidance
- Large & very large companies may also use pension consultants. Very large companies may involve their lawyers and actuaries
- Across the board a fifth to a third of employers expect to look to employer bodies like FSB and CBI for information

Expected sources of advice on how to comply with the new pension requirements (EAS 07)

Percentage of employers that will seek advice

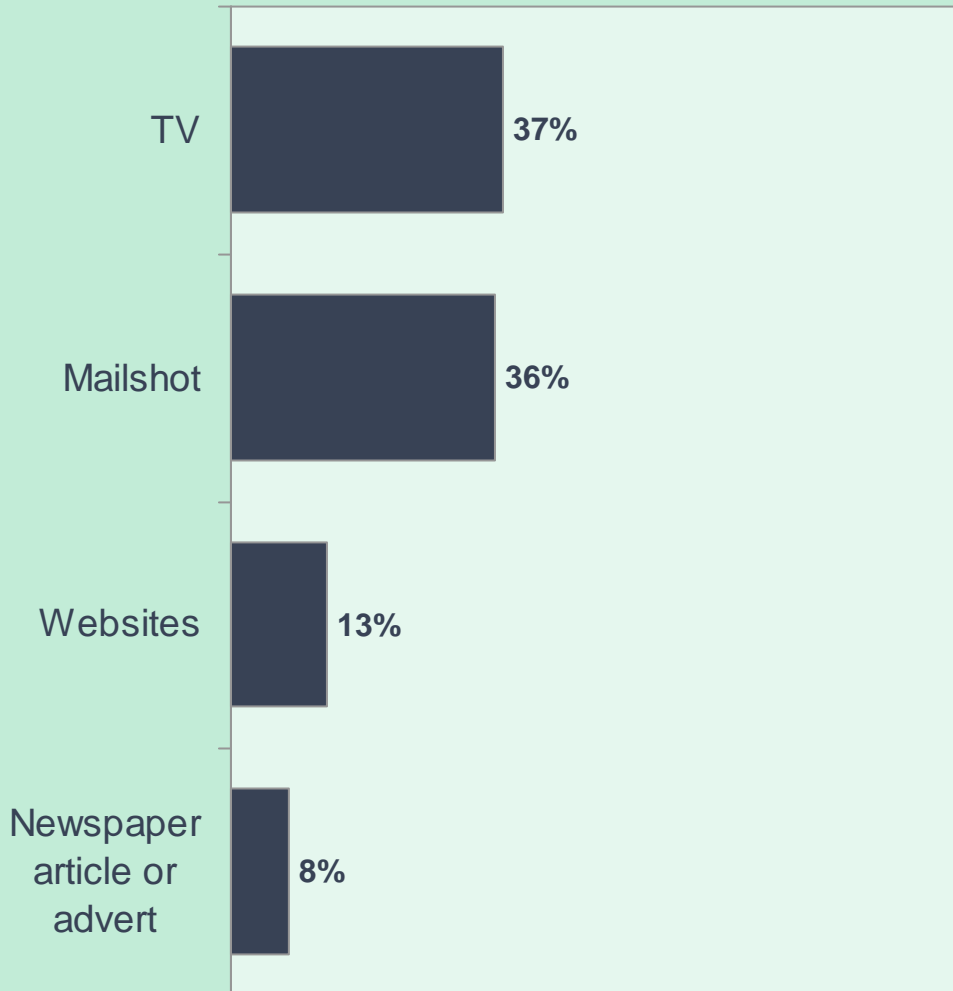
	No. of employees					
	1-4	5-49	50-249	250-499	500+	All
Accountant	77%	68%	46%	19%	28%	74%
IFA	36%	47%	62%	37%	33%	40%
Business Link	29%	28%	26%	26%	34%	28%
Employer bodies	25%	28%	30%	28%	29%	26%
Trade associations	16%	22%	17%	10%	5%	18%
Payroll manager	12%	19%	19%	15%	30%	14%
Actuaries	1%	2%	5%	10%	6%	1%
Pension consultant	1%	2%	7%	7%	25%	1%
No advice	5%	3%	5%	22%	33%	5%

Employers were able to give more than one response

- IFAs are expected to be most widely consulted by medium sized employers – potentially the group facing the greatest uncertainty regarding the role of, and relationship between, using a qualifying scheme and/ or the personal accounts scheme
- All but the largest companies will be looking for external guidance on compliance issues
- Among micro and small businesses the most widely mentioned association was the Federation of Small Businesses

Communicating with employers

(EAS 07) – Single most useful method for raising awareness among employers



- Employers were asked which one method of communication would be most useful for raising awareness about the new pension requirements among employers
- They were asked for the most useful method in terms of raising awareness generally amongst employers, rather than their individual preference for receiving information
- They were prompted with a list of possible methods of communication and were only able to give one response
- Over a third said that TV programmes or advertisements (37%) or a mail shot such as a leaflet (36%) would be the most useful method
- Around one in ten said that a website (13%) or newspaper articles/adverts (8%) would be most useful
- Preferences are generally consistent across size groups

Method by which most will prefer to receive information on what they will need to do once the new requirements are introduced

	No. of employees					
	1-4	5-49	50-249	250-499	500+	All
Post	76%	73%	52%	51%	20%	75%
E-mail	17%	21%	37%	35%	75%	19%
Website	6%	6%	10%	13%	5%	6%

- Employers were asked how they would most like to receive information about what they will need to do once the new requirements are introduced
- They were asked if they would most like to receive this information by post, email, online or by some other method, and were only able to provide one response
- Post is the most popular option for all except the largest employers where the preference is for email
- Email may be a viable back-up or supplementary route, especially for larger organisations

Preferred method for questions or additional information in the run-up to implementation and afterwards

	No. of employees					
	1-4	5-49	50-249	250-499	500+	All
Designated helpline	57%	56%	39%	42%	23%	56%
Specifically designed website	29%	31%	38%	34%	42%	30%
E-mail	13%	12%	23%	21%	34%	13%

- Those who feel the proposals are ‘a bad idea’ and those who know less about pensions are more likely to prefer a designated telephone helpline
- Employers were asked what method they would prefer to use if they had a question or required additional information about what they needed to do to in the run up to implementation of the reforms and beyond
- They were asked whether they would prefer a designated telephone helpline, a specifically designed website or email contact
- Overall, the larger the size of the organisation, the less likely they are to prefer a designated telephone line and the more likely they are to prefer a specifically designed website or email

Communicating messages to employers: lessons learnt from the National Minimum Wage campaign

The Low Pay Commission in their report of 2000 found that:

- Implementation of the NMW in 1999 was supported by high profile publicity campaign
 - ◆ *£5 million on press, TV and radio*
 - ◆ *Strong and positive press endorsement helped greatly*
- Informing employees was a key part of the compliance strategy by aiming to *'create a sense of entitlement'*
- The campaign promoted a simple message – strong emphasis on building awareness of a single factor: the principal rate of NMW
- Immediate post-implementation research showed high knowledge of that figure
 - ◆ *80% of employers*
 - ◆ *72% of employees*
- A subsequent survey in 2005 by the then Department of Trade and Industry found that employee awareness was, at that time, lower but still substantial:
 - ◆ *56% of respondents cited the value of the NMW to within 10% of its correct amount*
 - ◆ *93% were aware that an entitlement to the NMW applies from the first day of employment*

Securing Compliance

- Findings from EAS07 suggest that problems will be more common with micro and small employers, as:
 - ◆ It is likely to be harder to build awareness among them: 57% of micro-employers (1-4) and 47% of small employers (5-49) are unaware of the reforms, compared with only 9% of those with 500+ employees
 - ◆ They are more likely to be opposed to the reforms: 24% of micro-employers and 36% of small employers think the reforms are a 'bad idea', compared with 9% of employers with 500+ employees
 - ◆ They may be more willing to risk encouraging employee opt-out: 11% of micro-employers said they might do so, compared with 2% of employers with 500+ employees
 - ◆ They may be less supportive of the compliance regime: 39% of micro-employers and 40% of small employers oppose fines for employers who remain non-compliant without explanation, compared with 32% of employers with 500+ employees
- Problems may also be concentrated in specific sectors:
 - ◆ The CBI has highlighted those industries such as retail, hotels and construction where the lack of a waiting period may cause compliance problems due to high staff turnover (>20% p.a.)

Data sources

- The data sources quoted in this presentation are:
 - ◆ Forth, J. and Stokes, L. 2008, *Employers pension provision survey 2007*. **DWP Research report 545** (EPP07).
http://www.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_545.asp
 - ◆ Webb, C., Pye, J., Jeans, D., Robey, R. and Smith, P. 2008, *Employers' attitudes and likely reactions to the workplace pension reforms 2007*. **DWP Research report 546** (EAS07)
http://www.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_550.asp
 - ◆ The Low Pay Commission 2000, *The National Minimum Wage:– The Story So Far*
<http://www.lowpay.gov.uk/lowpay/report/pdf/complete.pdf>
 - ◆ Casebourne, J., Regan, J., Neathey, F. and Tuohy, S. 2006, *Employment Rights at Work – Survey of Employees 2005*. **DTI Employment Relations Research Series 51**
<http://www.berr.gov.uk/files/file27222.pdf>
 - ◆ Evidence submitted by the CBI to the Select Committee on Work & Pensions, ordered by the House of Commons to be published on 21 March 2007