

Department for Work and Pensions

Research Report No 617

Understanding small employers' likely responses to the 2012 workplace pension reforms: Report of a qualitative study

Andrew Thomas and Cassie Philpin

A report of research carried out by BMRB Social Research on behalf of the Department for Work and Pensions

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Summary

Background and research aims

The Pensions Act 2008 sets out a series of measures aimed at encouraging wider participation in private pension saving. The aim of these reforms is to overcome the decision-making inertia that currently characterises individuals' attitudes to pension saving and to make it easier for individuals to save for their retirement. The measures in the Act include a duty on employers to automatically enrol all eligible workers into qualifying workplace pension provision from 2012 and to provide a minimum contribution (of 3% of qualifying earnings) towards the pension saving for those employees who participate.

The Act also sets out plans for the establishment of a new national occupational pension scheme, the personal accounts scheme that employers can use as a qualifying scheme. The regulations that will underpin this legislation will include details on how the reforms will be introduced in 2012, including information on how the duties on employers will be 'staged' over time and how the employer contributions will be 'phased' in over time (e.g. 1% in an initial period, 2% in a second and 3% in steady state).

The principle aim of the research was to understand small employers' likely reaction to the reforms, the effect it will have on their administrative systems and how they will cover the cost of this and the monthly contributions.

Methodology

The research adopted a wholly qualitative methodology, comprising eight discussion groups (with up to eight respondents per group) and 28 follow-up face-to-face interviews. Fieldwork was spread across four areas (London and the South East, Manchester, Birmingham and Bristol) and took place between January and February 2009.

The sample of employers was selected to reflect diversity across a range of key variables:

- employer size (all had less than 50 employees);
- industry;
- current pension provision;
- contribution level; and
- type of administrative system used.

Due to the economic climate at the time of the study as well as the general difficulty of recruiting employers to participate in social research, a payment of £50 was made to all respondents.

Awareness of the reforms

There was a very low awareness of the pension reforms among all the small employers. Those who did have some knowledge of the reforms prior to this study said they had been made aware of the legislation by their accountants; no-one had heard about the reforms from any other sources. However, even then the level of detail about what the reforms involved was minimal and no-one had taken any steps towards preparing for implementing the reforms. Employers in this study thought that they were unlikely to take any action until about 12 months prior to implementation. This was generally underpinned by the view that the reforms were a long way off, and that they may be subject to change or perhaps not be implemented at all given the economic climate at the time of the study.

Although there was broad support for the general idea of a 'saving culture' among small employers, the economic climate at the time of the fieldwork had an impact on their attitude towards the reforms. This was demonstrated during discussions about their future plans where there was a high level of uncertainty and they were generally conservative about their profit expectations. Many were considering how to diversify their business in order to survive the recession. Because of this focus on remaining in business there was little enthusiasm for any legislation that would increase an employer's costs. There was also reluctance to contribute company money into pension schemes due to a lack of confidence in their performance, and in financial services as a whole. These views were seen across the range of industries, company size and pension provision, although companies already contributing to a company pension were less negative in their views.

As part of the research small employers were provided with information about the reforms¹. However, their lack of prior awareness of the reforms meant that it was difficult for them to identify the strategies they would use to implement the reforms and estimate the level of the associated costs. All the employers thought

¹ See the show cards in the topic guide (Appendix A).

that in order to make informed decisions they would need to seek advice from an accountant, Financial Adviser or pensions expert. They expected the information they would require would include:

- guidance on choosing and setting up a pension scheme (for non-providers);
- registering the pension scheme with The Pensions Regulator;
- budgeting for the costs of contributions;
- any additional administration that might be required.

Support and advice was required by both providers and non-providers as none felt that they had the expertise to deal with pension issues personally.

Previous legislative experience

As a means of understanding how employers respond to, and plan for, major legislative changes, they were asked about their previous experiences of implementing legislation that had involved an administration burden or an ongoing cost. Examples of legislation such as the introduction of the National Minimum Wage, disability legislation and maternity legislation were given. Typically, micro-employers (those with less than five employees), and some with fewer than 11 employees, had very limited experience of implementing previous legislation as it had not been relevant to their company. This was in cases where they were already paying the minimum wage and/or none of their staff had required maternity leave. Because of this lack of experience, they anticipated seeking advice from an external source. While larger employers in the study had been more affected by previous legislation, many had sought advice from financial advisers and relied on accountants or bookkeepers to implement the legislation for them. Where computerised systems were in place, employers said they had also relied on automatic system updates from software suppliers, which had made the administration of the required changes straightforward.

Generally, employers found that they had adequate support from the Government regarding new legislation. They considered that they were always provided with literature about new legislation well in advance and could contact Her Majesty's Revenue and Customs (HMRC) or the Department for Work and Pensions (DWP) for further information. They were also confident that they could access information from other sources such as their accountants or other organisations such as the Federation of Small Businesses should they need to. Employers in this study relied on accountants or solicitors when they were faced with legislation that they did not understand; Business Link² and business advisors were not spontaneously mentioned as a possible source of support.

Employers using computerised payroll systems were very positive about the automatic updates they received. Consequently, implementing previous legislation

² Business Link is a Government-funded business advice and guidance service which helps businesses in England comply with regulations.

had generally been easily manageable. However, criticisms arose when legislation was complex and hard to generalise to the entire workforce (such as annual leave), or when it was costly (such as the disability legislation).

There was no evidence of budgeting for previous Government legislation, even that which had proved more expensive. For previous legislation, employers also indicated that their long-term approach to coping with any additional costs had been by absorbing them through a reduction in profits. This lack of financial planning was underpinned by four factors: employers viewing Government legislation as unavoidable; a reliance on accountants for company budgeting, resulting in a lack of awareness of costs; a sense that previous legislation had not been too costly and, therefore, could be covered without extensive planning, although there were some exceptions; and the opinion that costs could not always be passed on to customers and, therefore, they had no option other than to absorb them.

The administrative process for implementing the 2012 reforms

Although the employers in this research were made aware of what their duties under the reforms would be, they struggled to identify what costs would be involved in implementing the legislation. However, when asked to consider the likely stages of implementation their suggestions were very consistent.

The suggested administrative process for setting up the reforms was as follows:

- seek advice from external sources regarding pension schemes and costs;
- discuss new pensions schemes with pension providers, where relevant;
- communicate with employees;
- upgrade administrative systems to deal with automatic enrolment;
- adjust payroll systems to deal with contributions and refunds.

All the employers considered that they would need to go through all of these stages, irrespective of whether they were already contributing to a workplace pension. This was because employers currently offering a pension were not usually offering it to all employees. They also felt that they would have to deal with pension scheme enrolment and opt-outs in the same way as a company that did not have a pension scheme already.

Administrative time and costs

DWP provided a specimen set of administrative stages, with associated times, which could be used during the interviews. The administrative process identified by employers was similar to that provided by DWP, although there were some differences. Overall, employers considered that DWP had overlooked time for seeking external advice and had under-estimated the amount of time that would

be needed to inform employees of the reforms and receive employee opt-out forms, should they choose not to remain in the scheme. There was also confusion about the refund process, with most employers expecting this to be dealt with by the pension provider rather than the employer.

When asked to estimate the amount of time each administrative task would take and the associated costs, employers across the sample gave a very wide range of estimates. This was because employers were unsure about:

- the exact administrative process that they would follow;
- the number of people in the company that would need to be informed;
- whether the external advice they would need would be included in their current fee or whether they would incur additional costs;
- whether employers would be required to pay extra for administration software updates or whether this would be included in existing annual renewal fees.

No additional fee was associated with storing employee pension information as it was expected that this could be accomplished using existing computer and storage systems. They, therefore, felt that very little time or cost would be required to manage the on-going administration of the pension scheme.

Based on previous experience of administrative system upgrades, employers were of the opinion that once the system was in place it would be simple to deal with any alterations to payroll for pension contributions. They also assumed that annual statements would be provided by the pension provider, and that reviewing the pension would be the responsibility of an external adviser.

However, there were concerns that there may be no limit on the amount of times employees could opt in and out of the scheme³, or request alterations to the amount that they contribute, which could increase their administrative costs.

Managing the pension contribution costs of the 2012 pension reforms

Although employers had been asked to familiarise themselves with their pension schemes, if they had one, there was a marked lack of awareness about how much the pension scheme cost them in terms of employer contributions. When asked to estimate the likely costs of the 2012 pension reforms, the task proved to be particularly complicated because employers that were contributing to a workplace pension scheme could not estimate how many people would want to remain in, or join, the pension scheme. Employers that did not provide a pension scheme, or provided a pension scheme with no employer contribution, could not estimate how many employees would want to join the scheme.

³ Proposed legislation states that employees will be allowed to opt in once every 12 months.

Initially, employers that did not provide a scheme, offered a scheme with no employer contribution, or provided a scheme with an employer contribution but with a low participation rate, were concerned about the likely costs of the pension scheme contributions. However, after some thought, they began to consider that the contribution costs would be much lower than they had initially expected. This was because:

- micro-employers that were already contributing to a pension scheme would only have to expand the offer to one or two members of staff, which was seen as a relatively small additional cost;
- employers that were contributing to a pension scheme expected most employees who were not currently in a pension scheme would opt out. This was because they thought employees receiving low wages would not want to see a reduction in their salary. The reforms were thought to only appeal to higher salaried staff who had not got around to setting up a pension yet, rather than the entire workforce. Therefore, costs were calculated by employers estimating 3% of the salary of a selection of their higher paid workers;
- employers that did not provide a pension scheme, or provided a scheme without an employer contribution also considered that the majority of their employees would opt out. This was partly because there was no demand for a pension scheme from their employees, and partly because of their belief that low paid staff would rather have their money now;
- employers that were non-providers, non-contributors or had low participation rates, were expecting a high opt-out rate from their employees. This was partly because they thought employees would prefer the money and partly because little or no interest had been expressed in a workplace pension scheme. Consequently, they were not too concerned about the additional cost of future pension contributions. However, they recognised that employees – through inertia – may remain in the pension schemes, in which case the costs of pension contributions may be much higher than they expected.

Employers were asked to consider how they would manage any additional pension contribution costs. This was undertaken using three economic scenarios: continued economic uncertainty; the beginning of an economic recovery; and full economic recovery.

- **Continued economic uncertainty:** In a time of economic uncertainty employers were concerned that they would be unable to pass on any additional costs to customers, or be able to afford to absorb the costs by reducing profits as they had already squeezed their profit margins. The most common suggestion was to reduce the wage bill. Suggested methods for achieving this included: freezing wages or not offering bonuses or other benefits; reducing staff hours; offering lower wages for new starters and as a last resort, making redundancies.

Employers also suggested that they might encourage their employees to opt-out of the pension scheme. Although employers were told that this would be illegal, they felt confident that they could achieve this by suggesting to staff that pensions were not a secure way of saving money, by offering them a choice between a modest increase in salary or a pension contribution, or simply by making it awkward for them to find out the details of the pension scheme.

- **The beginning of an economic recovery:** Employers were still concerned about passing any increase in pension costs on to customers and there remained a reluctance to affect profitability. Employers thought that redundancies were much less likely as a means of making cost savings but planned to cover the additional cost of contributions by reducing the company wage bill by freezing wages, reducing or not paying bonuses or other benefits and reducing staff hours. Further suggestions for reducing overheads included cancelling cleaners and mobile phone contracts. Although there were some employers that continued to consider encouraging employee opt-out, this was considerably reduced.
- **Full economic recovery:** In a time of full economic recovery, employers were more confident that they would be able to cover the cost of contributions by absorbing them in their overheads or passing them on to their customers.

In discussing the contribution rates that employers would make, all of the non-providers, non-contributors and those contributing less than 3% indicated that they would contribute no more than the minimum 3%. These employers tended to suggest that bonuses or salaries would be a better way to attract and retain staff. Employers that were already offering pensions with more than a 3% contribution – and typically had a high take-up – thought that they would expand their existing scheme to the rest of the workforce on the same contributions basis.

When considering costs, employers were much more concerned about the cost of pension contributions compared with the on-going administrative costs. This was because they considered that pension contribution costs could potentially be very high if their expectations about a high degree of employee opt-out were incorrect.

Reactions to 'phasing'

Employers will be able to phase in contributions in stages of 1%, 2% and 3% over time. The time period over which phasing will occur had not been decided at the time of research.

There were mixed views about the benefits of phasing. Employers that supported the policy tended to be larger companies with more than 20 employees that were not already contributing to a pension scheme and those employers of all sizes that currently, or would, outsource the administration to a bookkeeper or accountant.

The remaining employers however, felt that phasing would cause confusion and add administrative costs, so would prefer to implement 3% contributions from the start. This was because, although they saw the financial benefits of phasing, they thought that the administration could be complicated.

There was consensus that if phasing were introduced it should come into effect in April, to coincide with the financial year.

Government assistance and reassurance

As part of the discussion about dealing with previous legislative change, employers were asked what Government could do to make the introduction of the 2012 pension reforms easier. While not all employers had experience of previous legislation, they nevertheless had suggestions for how the Government might assist them.

Employers were keen for two sets of assistance from Government:

- easily digestible literature that could be passed on to employees;
- if they had to pay an additional cost for administrative system software updates to deal with the 2012 pension reforms, they required financial assistance in the form of a subsidy. This was especially true for employers that did not provide or did not contribute to a pension scheme.

Employers that did not have a pension scheme or provided a scheme with no employer contribution expressed concerns about automatically enrolling employees into a pension scheme that might not perform adequately in the future. They considered that they need reassurance from Government that they would not be liable if the pension scheme did not perform adequately. This was less of a concern for employers that were currently contributing to a pension scheme because they took the view that employees could withdraw from a pension scheme if they wished to do so.

1 Introduction

1.1 Background

The Pensions Act 2008 sets out a series of measures aimed at encouraging wider participation in private pension saving. The aim of these reforms is to overcome the decision-making inertia that currently characterises individuals' attitudes to pension saving and to make it easier for individuals to save for their retirement. The measures in the Act include a duty on employers to automatically enrol all eligible workers into qualifying workplace pension provision from 2012 and to provide a minimum contribution (of 3% of qualifying earnings) towards the pension saving for those employees who participate.

The Act also sets out plans for the establishment of a new national occupational pension scheme, the personal accounts scheme that employers can use as a qualifying scheme. The regulations that will underpin this legislation will include details on how the reforms will be introduced in 2012, including information on how the duties on employers will be 'staged' over time and how the employer contributions will be 'phased' in over time (e.g. 1% in an initial period, 2% in a second and 3% in steady state).

The Department for Work and Pensions (DWP) commissioned BMRB to identify how small employers in particular are likely to react to the reforms, the expected administrative costs and how they will manage any costs incurred.

1.2 Research aims and objectives

The principle aim of the research was to understand small employers' likely reaction to the reforms, the effect it will have on their administrative systems and how they will cover the cost of this and the monthly contributions.

Specific aims of the research were to:

- gain a deeper understanding of the past experiences of small employers when the Government has introduced comparable legislation to inform the DWP approach to the 2012 pension reforms;

- gather specific evidence about current administrative systems in small businesses, how these will need to adapt to comply with the reforms and what their systems may be like post-2012;
- explore the ability (rather than preferences) of small employers to cover the costs (both initial and on-going) of the 2012 pension reforms and how they will do this around:
 - adapting their administrative systems as the reforms are introduced and on-going administrative costs;
 - the associated costs of communications to employees;
 - the additional cost of pension scheme contributions;
- explore small employers' views on DWP's plan to allow the phasing in of contributions over time.

1.3 Research design and conduct

The research adopted a wholly qualitative methodology, comprising eight discussion groups (a total of 56 respondents) and 28 follow-up face-to-face in-depth interviews. The qualitative fieldwork was spread across four areas (London and the South East, Manchester, Birmingham and Bristol) and took place between January and February 2009.

When recruiting the group discussions, a set of questions were asked in order to ensure that the individuals taking part in the research had sufficient knowledge of the company's pension policy and were directly involved in decision making about the scheme, if one was in place.

The research began with a series of group discussions in which the pension reforms were described. Previous research^{4,5} into pension reform has shown considerable levels of unawareness among employers and that small employers in particular find the task of considering their likely implementation strategy very difficult to undertake. This meant that enabling employers to make an informed response was a priority in this research. Therefore, a series of show cards were used, designed specifically for this study, which provided employers with a comprehensive overview of the proposals (see the show cards within the topic guide in Appendix A for details).

During the group discussions, employers were provided with the opportunity to digest and discuss the information provided before considering what the firm's

⁴ Tredwell, L. and Thomas, A. (2008). *Understanding employers' likely responses to the workplace pension reforms 2007: Report of a qualitative study*. DWP Report No. 547, Leeds.

⁵ Thomas, A. and Smith, M. (2008). *Customer insight research*. The Pensions Regulator (Unpublished).

likely approach might be. It also allowed the opportunity to discuss the reforms with other employers, thereby enabling participants to think in a more rounded way about their overall cost-management strategy and the administrative underpinning that it will require.

At the time of the study the UK was experiencing an economic downturn with low interest rates and banks reticent to lend to individuals and small businesses. It was expected that the economic climate at the time of fieldwork would have an impact on how the pension reforms were received. A range of economic scenarios, developed by The Futures Company, were used in the group discussions to consider how the management of the cost of the pension reforms may vary in the light of a range of different economic situations (see show cards in the topic guide in Appendix A for details).

After the group discussions there then followed a series of in-depth interviews. Employers for the follow-up depth interviews were selected based on a purposive sample structured to reflect that of the overall population of small employers.

The study required both financial and administrative information. Typically, one person in a firm may not have both sets of information. Consequently, with the exception of micro employers (less than five employees), the participant selected from the group discussion was asked to nominate a colleague who could provide the additional information required. Sometimes this was not possible and so an alternative employer from the group discussions was selected.

The follow-up in-depth interviews were intended to provide an opportunity for respondents to contemplate the issues raised in the group discussion and to talk in greater detail about the actual costs (both pension contributions and administration). They were asked to think about the issues raised in the group discussions further and to seek out financial and administrative information. On the whole, employers did little further preparation for the in-depth interviews, although some had discussed the issue further with colleagues and others had collected some basic information about the pension scheme.

1.4 Sample design

The sample was designed to ensure a full coverage of key employer sub-groups and was selected to include a range of variables:

Employer size: The overall focus of the research was with small employers (defined as having less than 50 employees). The sample was divided into four size sub-groups in order to be able to compare cost management strategies and internal systems across company size:

- 1-4;
- 5-10;
- 11-25;
- 26-49.

Pension provision: The sample was divided between those employers who contributed to a workplace pension scheme (with varying levels of contribution) and those that either did not contribute to a scheme (non-contributors) or did not provide one at all (non-providers). Non-contributors and non-providers were assigned to the same group for the discussions because these employers were likely to face a similar financial situation when the 2012 pension reforms are implemented.

Industry sector: A recent qualitative study⁶ indicated that responses to the pension reforms are likely to be driven by a range of factors including current levels of employer contribution, current levels of employee participation, average wage levels and the employment of high proportions of seasonal or temporary (non-agency) employees. Therefore it was important to ensure that the sample included a broad spread of industrial sectors in order to reflect a variety of employee characteristics.

A diverse spread of industrial sectors are included. These were classified as:

- retail;
- manufacturing;
- services; and
- other.

Administrative system: Employers vary in how they deal with administration and payroll, for example, whether they are managed in-house or contracted out, or whether they are conducted manually or computerised. As this may have an impact on how they respond to the reforms, the sample reflected a range of administrative systems. Employers were selected on the basis of whether their payroll system was:

- contracted-out in its entirety; or
- operated in-house.

Of those with in-house payroll systems, employers were differentiated according to whether their payroll system was:

- computerised; or
- manual.

Experience of previous legislation: Insight gained from experience of implementing previous legislation may influence how small employers cope with the 2012 reforms. Consequently, the employers included in the sample had some experience of one or more previous legislative changes with comparable set-up or ongoing costs. Employers were asked specifically about their experience of the

⁶ Tredwell, L. and Thomas, A. (2008). *Understanding employers' likely responses to the workplace pension reforms 2007: Report of a qualitative study*. DWP Report No. 547, Leeds.

following legislative changes:

- minimum wage legislation;
- maternity/paternity legislation;
- introduction of stakeholder pensions;
- disability legislation;
- changes in minimum annual leave requirements; and
- HMRC moving to electronic filing of tax returns.

Geographical location: Employers were included from a selection of geographical areas, in order to provide coverage of different employment areas and their associated industry profile. The sample covered London and the South East, Birmingham, Manchester and Bristol.

1.5 Sample profile

Group discussions	
Number of employers	56
Pension provision	
Provider/contributor	29
Non-provider/non-contributor	27
Employer size	
1-4	18
5-10	13
11-25	10
26-50	15
Sector	
Manufacturing	10
Services	24
Retail	10
Other	12
Location	
(Depth interviews only)	
London and the South East	8
Birmingham	6
Manchester	4
Bristol	10

Depth interviews	
Number of employers	28
Pension provision	
Provider/contributor	12
Non-provider	4
Non-contributor	12
Employer size	
1-4	4
5-10	9
11-25	6
26-50	9
Sector	
Manufacturing	9
Services	10
Retail	3
Other	6
Location	
London and the South East	8
Birmingham	6
Manchester	4
Bristol	10
Payroll system	
Contracted-out	20
In-house	8
In-house payroll system used (eight depth interviews only)	
Computerised	7
Manual	1

1.6 Analysis of the findings

Verbatim transcripts, produced from digital recordings, were subject to a rigorous content analysis (Matrix Mapping), which involved systematically sifting, summarising and sorting the verbatim material according to key issues and themes within a thematic framework. These analytical charts formed the basis of the evidence reported in the following chapters. Further details of the analytical process used may be found in Appendix B.

Adopting a qualitative approach has made it possible to report on the range of views, experiences and suggestions reported by participants. Where evident, distinctions have been drawn between different sub-groups. The purposive nature of the sample design as well as the small sample size, however, means that the study does not provide any statistical data relating to the prevalence of these views. The aim of qualitative research is to define and describe the range of emergent issues and explore linkages, rather than to measure their extent.

The findings have been illustrated and illuminated with the use of verbatim quotations. The quotations have been edited for clarity but care has been taken not to change the respondents' meaning in any way – alterations are shown using parenthesis and ellipses.

Quotations are attributed, anonymously, using the following convention:

Group discussion participants:

Group discussion, employer size, pension provision, location

Depth interview participants:

Interview, employer size, industry sector, participation rate, administrative system location.

In 2007, BMRB completed a quantitative study into employers' existing pension arrangements and their likely reactions to the 2012 reforms. Two thousand five hundred employers were included in the sample, 1,250 of which were small employers (with 50 or fewer employees)⁷. In this report references to the findings of this study will be provided, where relevant, to provide context.

1.7 Content of the report

This report outlines the findings from the qualitative research in five further chapters:

- **Chapter 2** provides an overview of employers' profitability and current pension provision, the reasons for their current level of provision and level of take-up;
- **Chapter 3** explores employers' awareness of the pension reforms and their views about the pension reforms in relation to the current economic climate. The chapter also describes the likely timing and nature of their decision making process and their information needs;
- **Chapter 4** focuses on employers' experiences of previous legislation which would have required administrative action, or had a financial impact;
- **Chapter 5** explores what employers believe the cost of pension scheme contributions will be and how they will manage these costs across different economic scenarios, as well as the possible impact of phasing;
- **Chapter 6** focuses on the administrative tasks involved with implementing the reforms, their estimated costs and how this will be managed.

⁷ Grant, C., Fitzpatrick, A., Sinclair, P. and Donovan, J.L. (2008). *Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Report No. 547, Leeds.

2 Overview of employer's current pension provision and profitability

This chapter provides a profile of the employers who participated in the research in order to provide a context for the rest of the report. The chapter begins by outlining their current pension provision, contribution and participation rate and, their reasons for providing (or not providing) a pension scheme. The chapter ends by considering employers' performance over the previous five years and their expectations for the coming years up to 2012.

2.1 Employer's current pension provision: population statistics

The quantitative evidence from 2007 shows that 80 per cent of employers with fewer than 50 employees either did not provide a workplace pension scheme, or provided a scheme but did not contribute to it (Table C.1). The larger small employers are more likely (82 per cent of 26-49 employees) to provide a pension scheme into which they contribute compared to the smaller (22 per cent of five to ten employees) and micro employers (17 per cent).

2.2 Provision among respondents in this survey

The present study was designed to look at the management strategies of small employers from the point of view of coping with potentially increased costs of pension scheme contributions and the associated administrative costs. The study was specifically designed to include equal proportions of contributor and non-contributor/non-provider employers.

Under 2001 legislation, employers with five or more eligible staff must offer access to a stakeholder pension. In this study, some employers with more than

five employees said they did not offer any pension provision at all. This was most prevalent among family businesses in the services and retail sector, all of whom relied on accountants and bookkeepers to administer their payroll. It is possible that they were unaware of the existence of a stakeholder pension scheme because one had been set up prior to their joining the company and it was not being used. However, there was some evidence to suggest that this was not always the case as some said that they had not set up a stakeholder scheme because their low paid employees would not be interested.

'Being relatively small, in the first couple of years it was the least of our worries. And now with the nature of the workforce we've got, they're quite young, it's not something that anyone's ever asked for and certainly we haven't offered.'

(Interview, 26-49 employees, retail, non-provider, wholly in-house computerised administration)

"I don't know what the amount is for which you've got to have a pension, I think it's eight, isn't it, or ten people or something like that before you've actually got to hold a firm's pension? It's never really come up to be honest."

(Interview, 5-10 employees, manufacturing, non-provider, in-house computerised administration)

2.3 Employer contribution and employee participation rates

Employers in this study that were contributing to a pension scheme appeared to have a two-tier approach to pension provision. Employers were typically either offering a separate scheme to directors and executive staff rather than the company stakeholder pension, or they would contribute to the stakeholder pension for higher level staff but not for lower level workers.

In this study, employer contribution rates for higher level employees generally ranged from two per cent to eight per cent. There were some employers that offered more than ten per cent and in one case an employer said they matched an employee's contribution of 30 per cent. However, the typical employer contribution rate was around three per cent. Rates would often vary within the company depending on the seniority of staff and when employers were matching employee contributions. In the latter case, employers were often unaware of the amount they were matching and therefore were less likely than those providing set contributions to know the cost of their pension contributions.

Where workplace pensions were being offered to company directors and higher earners, the participation rate was generally high, from 50 per cent to 100 per cent, with those opting out tending to already have a private pension scheme. Where a workplace pension was offered to all employees with an employer contribution, take-up amongst lower earners had been minimal.

Take-up of stakeholder pensions with no employer contribution tended to be by administrative staff in professional industries, including education and law. In the lower salaried industries such as cleaning services, retail and care, the percentage of the workforce who were members of a workplace pension scheme, was very low.

Employers not contributing to, or providing, a pension scheme for any of their employees tended to operate in sectors that employed people at, or close to, the minimum wage. Typically, these industries were in the retail and manual services industrial sectors.

2.4 Reasons why small employers do, or do not, offer a pension scheme

In the previous quantitative research, the two main reasons employers gave for providing a pension were in order to look after their employees and because it is a legal requirement (both 31 per cent of all firms with fewer than 50 employees). Other reasons given were that pensions help recruit and retain staff (seven per cent) and because employees value pension contributions (five per cent). See Table 2.2, Appendix C.

In the same survey a third of all small employers said that the main reason for not providing a pension was that the organisation was too small. This reason was even given by 19 per cent of employers with 26-49 employees which suggests that even some of the largest of the small employers feel they are still too small to provide their employees with a pension. Other common reasons for non-provision were that pensions are too costly (13 per cent), staff do not want pensions (11 per cent) and employees are mainly part-time or temporary (six per cent). See Table C.3.

However, less prevalent were issues relating to cost and company size with a greater focus on the view that staff would not be interested in a pension.

In this study the reasons given by small employers for their current level of pension provision is broadly similar with three main issues predominating:

- **The nature of the workforce:** Employers currently offering workplace pension schemes to which they were making a contribution were generally reserving them for company directors and higher salaried staff. Employers felt that staff who were more settled, often older and therefore more likely to be thinking about retirement, were more likely to value having a pension.

Among the employers that were not providing a pension scheme to employees, it was a common opinion that the following types of employees were unlikely to be interested in pensions: those earning the minimum wage; part-time employees; young employees; people who work in industries where there is often a high turnover of staff, such as cleaning or driving. This was because employers believed that these employees were more focused on the short-term. They thought that lower salaried staff required their full wage to cover their

day-to-day outgoings so could not afford to see a reduction in their take home pay through making pension contributions. This opinion was echoed by a small number of employers in the retail and service sectors that had discussed offering to provide a pension but received little interest from their employees.

"They are mostly young lads in their early 20s, trying to start families, renting flats and what have you, so I don't think they're really thinking about the future at the moment."

(Interview, five to ten employees, services, contributing <3%, participation rate 0 per cent-25 per cent, contracted out administration)

- **Attitude towards pensions:** Employers that valued pension schemes were typically those already offering them to employees. Others had offered to provide a pension scheme to employees but there was little interest. In these cases, the pension scheme was offered either for paternalistic reasons or they regarded them as a method of attracting good employees, or as a means of incentivising and encouraging loyalty among existing staff.

"They offer some security to your employees, and we really offered ours as a ploy to keep decent staff, give them a bit of a benefit and to stop them from going elsewhere."

(Interview, one to four employees, other, contributing <3%, participation rate 0 per cent-25 per cent, wholly-in computerised administration)

"It is an incentive now in a salary if you are advertising for somebody isn't it, if you advertise pension, but you wouldn't offer it to all your staff would you, you would only offer it to your key staff wouldn't you?"

(Group, 26-49 employees, contributing, Manchester)

Other employers did not have a paternalistic approach to their employees, or they did not believe that pension schemes had any value and therefore did not offer them. This was because either they did not see pensions as a secure or effective way of saving money for retirement, or they did not see pensions as an effective recruitment or retention tool. They felt that employees would respond more positively to pay rises, bonuses or other benefits such as child care vouchers and that savings would be better off kept in ISAs or high interest bank accounts.

"When you are a small company, the profit per person is very limited. Why put any of that money into a black hole that they are not going to get their hands on?"

(Group, 5-10 employees, not-contributing/non-provider, Bristol)

- **Responsibility;** The idea of a 'saving culture' in which people took responsibility for saving for the future and not relying heavily on credit was highly regarded by all employers. However, there was a strong sense among many employers who were not contributing to, or providing, any pension, that it should be the responsibility of the Government or the individual, rather than the employer.

"I've arranged my own personal pension so why shouldn't my employees do the same?"

(Interview 20, 5-10 employees, manufacturing, non-provider, wholly in-house computerised administration)

This issue was exacerbated by recent negative press about poor pension performance which resulted in employers being reluctant to select a workplace pension for fear of being liable should employee savings be lost.

2.5 Profitability performance over the previous five years

Employers were typically positive regarding their financial performance over the previous five years, reporting stable growth across all industries with profits ranging from 10-40 per cent and generally stable recruitment. Some firms had doubled their workforce as a result of their economic growth.

However, as of 2008, employers reported feeling the impact of the economic climate with the market becoming far more competitive. This was reportedly due to losing clients as a result of firms closing, customers cutting back on spending and clients generally expecting more for their money. As a result, employers had begun seeing a reduction in their profits. This was most prevalent in the service sector.

2.6 Expected performance over the coming five years

Despite much uncertainty about the future, a sense of optimism remained. Expected profits for the coming five years were conservative, ranging from breaking even to around three or four per cent year-on-year growth. Employers, across all industries and company size, were keen to continue in business and hoped that they would not have to make redundancies or cease trading.

A minority of employers spoke of plans for expansion; these were typically essential services such as care homes and education.

For employers in the retail and service sectors the main focus was on establishing plans to ensure that companies could remain stable. These plans generally involved diversifying. For example, estate agents were increasingly focusing on the lettings market rather than sales; retailers were optimistic that the second-hand trade or youth market would not be so greatly affected by the economic downturn. Manufacturers tended to be focusing their efforts on undercutting the competition or benefiting from a reduction in competition as other companies in their field succumbed to the recession.

"We'll be a bit opportunistic. You know that someone else's misfortune will be our fortune so we're quite open-minded about the future really."

(Interview, 11-25 employees, services, contributing >3%, participation rate 26 per cent-75 per cent, wholly in-house computerised administration)

3 Awareness of the 2012 workplace pension reforms

This chapter provides an overview of employers' awareness of the 2012 reforms and examines their reactions to the legislation in the light of the current economic climate.

3.1 Awareness of the 2012 reforms and the impact of the economic climate

There was very low awareness of the forthcoming pension reforms among all employers in this study. Where employers were aware of them, it was their accountants who were the source of information. However, no one knew the details of the legislation and none had begun planning for its implementation. Responses to the reforms were, therefore, heavily reliant on the information provided to respondents during the group discussions and interviews (Appendix A).

Given the timing of the project (fieldwork took place between January and February 2009) the economic climate also had an impact on the way in which the reforms were received.

- **Attitudes towards the 2012 pension legislation:** Employers expected the recession to be lengthy and profit expectations were conservative over the next five years. Their focus was on working to ensure the company stayed in business, either through diversification, cost-cutting, or under-cutting the competition. As a result, there was concern about the Government implementing legislation that would increase the costs to the business. This was apparent even among those employers that supported the idea of company pension schemes, especially those with low participation rates.

Depending on whether employers thought the recession would be short-term or long-term, their views tended to vary. The longer the recession was thought to be, the greater the concern about implementing potentially costly legislation. Consequently, even the micro employers that were relatively unconcerned about the additional expense of pension contributions became more concerned about the cost implications if the recession became long-term.

"If the situation's like this in a few years' time then nobody's going to like the sound of it because ultimately it's costing you money isn't it?"

(Group, one to four employees, contributing, London)

- **Negativity towards pensions:** Due to the economic situation at the time of the interviews there was also a lack of trust in financial services generally and pension schemes specifically among some employers. For employers that were not already contributing to, or providing, any pension provision, this underpinned the belief that there would be little interest from their staff. They also felt that there was no incentive or benefit to the company to provide a pension.

"It doesn't give you any more return for your business. It just drains it."

(Group, five to ten employees, not contributing/non-provider, Bristol)

Some negativity towards pensions could also be seen among employers that had their own pension schemes and were making an employee contribution. There was a reluctance to expand existing pension provision and see a reduction in company profits through pension contributions that were not regarded as an effective way of incentivising staff. The point of implementing the pension reforms at a time of such financial uncertainty was therefore questioned.

"Looking at what's happened in recent years with pension's collapses and banks collapsing, they would rather take their money and run and hide it under a mattress... This is probably a wise move."

(Interview, 26-49 employees, manufacturing, contributing <3%, participation rate 26 per cent-75 per cent, contracted-out administration)

3.2 Understanding of pension schemes

The majority of employers that were providing a pension scheme, irrespective of whether they were contributing or not, felt that it was likely they would expand their existing scheme to include all employees rather than set up a new scheme. This was based on the assumption that it would be the easiest and cheapest option; it also assumed that their existing pension scheme would comply with the new legislation. Similarly, employers not providing a pension scheme tended to say they would opt for the personal accounts scheme, presuming that it had Government backing⁸ and was, therefore, the safest and cheapest pension to implement.

⁸ It was pointed out during the discussions and interviews that the personal accounts scheme was not a Government-backed pension scheme.

All employers felt that they would need time to research the various pension schemes in order to identify which would be best for their company and employees in terms of cost and security.

Other advice they felt they would require included guidance on administrative processes. However, they generally expected administrative system software updates to be available from service providers, or for accountants and bookkeepers to be able to manage this.

Employers that were not currently providing a pension scheme were concerned that if they were to set up a pension scheme for their employees they would be held liable if the pension scheme they selected proved to have poor investment performance. Employers that had set up a scheme but were not contributing had a similar view but were less concerned because the scheme was dormant. Both groups of employers required reassurance that they would not have any liability.

3.3 Expected opt-out rates among employees

Employers generally predicted high opt-out rates among employees, from 45 per cent to 100 per cent, irrespective of whether they were making an employer contribution already. Employers not contributing to a pension, thought that employees in low skilled industries, low salaried, young, non-British EU, or part-time staff would opt out.

Employers that were contributing to a pension scheme were generally only doing so for Directors, or office staff on higher salaries, as opposed to employees in manual roles. They were also expecting a level of high opt-out among the remaining workforce. Employers that offered the pension scheme to all its employees and had a high participation rate expected little change in overall participation, with only newly automatically enrolled employees opting out

The reasons for these predicted high opt-out rates were based on the following beliefs employers held about their employees:

- that their employees have an overall lack of trust in pensions and financial institutions, which employers felt would make pensions seem unappealing; and
- that employees who are not already in a pension scheme will not want to see a reduction in their wages through pension contributions.

'I think a lot of the young secretaries, particularly the ones from 20 to 35 will drop out on the basis of they would not want to forfeit [some] of their salary.'

(Group, 26-49 employees, not contributing/non-provider, London)

These views were not based on a formal consultation with employees, instead they were often based on prior experience of such staff declining the offer of a pension scheme.

3.4 Current levels of planning

None of the employers who participated in this research had begun planning for the 2012 pension reforms. Those who took part in the follow-up interviews had done little more than discuss the issues raised in the group discussions informally with colleagues prior to the subsequent interview. Employers across all sizes and industries suggested that they would not seriously consider what action they would take until six months to a year prior to the reforms taking place. Similar findings were evident in previous research⁹.

This lack of planning was due to:

- limited awareness of the reforms and the need to plan in the first place;
- 2012 seeming like a long way off;
- the possibility that the reforms would be altered, or not implemented at all depending on the prevailing economic climate;
- expectations of high opt-out rates making it difficult to plan financially; and
- a very limited knowledge of pensions which meant that employers were reliant on external information and prompting before taking action.

Employers had limited understanding of how the future legislation would work. This is not surprising as the Pensions Regulator is yet to implement an awareness-raising campaign. However, one question that continually arose concerned the role of the personal accounts scheme and whether they would have to use it. Employers' lack of in-depth knowledge of their duties under the reforms meant that those with existing pension schemes were interested to know whether they would be required to use it, or whether they could use it in addition to their existing pension scheme for certain types of employees. Non-providers wondered whether they would be required to use the personal account scheme or whether they could set up their own scheme.

⁹ Tredwell, L. and Thomas, A. (2008). *Understanding employers' likely responses to the workplace pension reforms 2007: Report of a qualitative study*. DWP Report No. 547, Leeds.

4 Learning from previous legislation

This chapter considers employers' previous experience of implementing similar legislative change which had comparable set-up or ongoing costs. Both the successes of the past as well as the difficulties that arose are explored.

Several areas of previous legislation were discussed with employers, each of which would have required administrative action, or had a financial impact on the company. By exploring reactions to previous reforms, some insight may be gained into how employers may react to the 2012 reforms. Employers were asked to reflect on their experiences of the following legislative changes:

- minimum wage legislation;
- maternity/paternity legislation;
- introduction of stakeholder pensions;
- disability legislation;
- changes in minimum annual leave requirements; and
- Her Majesty's Revenue and Customs (HMRC) moving to electronic filing of tax returns.

Employers also spontaneously mentioned the following legislative changes:

- working hours regulations; and
- industry relevant issues, such as Home Improvement Packs.

In raising questions about how employers dealt with previous legislation, the purpose was not to understand how they dealt specifically with each piece of legislation but to consider, more broadly, whether they planned for such changes and whether certain types of legislation had more of an impact on their business than others.

4.1 Receiving information and advice about legislative change

Employers generally felt that there was adequate information available to assist them in implementing previous reforms. They mentioned substantial communication from the Department for Work and Pensions (DWP) and HMRC in the form of leaflets and booklets, websites, help centres and help lines, as well as CDs or downloadable information, guides and system updates.

Those that felt that the literature from the Government could at times be overwhelming or that wanted more information, knew where to access further impartial advice if required. Useful sources mentioned included ACAS, the Federation of Small Businesses, accountants, Independent Financial Advisers (IFAs) and solicitors. Business Link¹⁰ and business advisers were not spontaneously mentioned.

There was a general expectation that DWP would ensure that useful information in relation to the 2012 reforms would be available in a timely manner, one to two years in advance of the implementation of the legislation.

4.2 Managing previous legislative change

Not all employers had been affected equally by previous legislation. For example, the smaller employers (ten or less employees) that participated in this study generally had little experience of the minimum wage because they were already paying above this, already provided annual leave and had not dealt with any staff pregnancies or disabilities.

By contrast, the larger employers had usually had experience of all the legislative changes discussed in the research.

The larger employers that had experience of implementing previous legislation generally reported that it had been implemented smoothly. This was generally as a result of two key factors.

- **Reliance on outsourcing.** There was considerable reliance on outsourcing services and seeking external advice among the respondents. On the one hand, they generally found that being able to outsource the administration and avoid any personal responsibility for implementation meant that they found the process quite manageable. On the other hand this meant that they were largely unable to provide a detailed overview of past experience in regards of administrative action, set-up costs or ongoing costs as employers typically talked about issues being dealt with by their accountant or bookkeeper.

'The transition was very smooth in terms of the minimum wage; it just went straight through the accountant.'

(Interview, 26 – 49 employees, services, not contributing, computerised administration partly in-house)

¹⁰ Business Link is a Government-funded business advice and guidance service which helps businesses in England comply with regulations.

- **Automatic updates.** Those employers that dealt with payroll in-house generally worked with computerised systems such as Sage, Pegasus and Quick Books. They had, therefore, been heavily reliant on their software provider for automatic updates to help them deal with previous legislation such as the minimum wage, or changes in VAT. They were all very positive about how useful these were in making such changes trouble-free.

'We use Sage. Every so often there are changes to the tax rates, NI rates and so on. We get an update sent to us. We install it and it usually works like clockwork. It makes life very easy.'

(Interview, 5-10 employees, manufacturing, non-provider, in-house computerised administration)

The smaller employers that had no experience of previous legislative change, thought that they would deal with future legislative changes in the same way as the larger employers – outsourcing to accountants and relying on automatic updates.

4.3 Difficulties with managing previous legislative change

When difficulties had arisen with the implementation of new legislation, this was in relation to two key issues:

- **Complexity.** Employers struggled most with previous reforms that required a substantial amount of paperwork and legal advice, or that could not easily be generalised to all employees. Employers found complicated paperwork frustrating and time consuming to understand.

In particular employers referred to discrimination legislation, which required them to 'dot all the Is and cross all the Ts'. Employers also mentioned finding the rules for maternity and paternity leave confusing, resulting in a need to seek legal advice and this was associated with increased costs.

Other employers, with a workforce made up of people on different contracts and shift patterns, found annual leave and the minimum wage more complicated to implement as it required employers to interpret the legislation.

Each of these factors increased the amount of time that employers had to spend on implementing the reforms and the likelihood of having to refer to external sources for legal and financial advice. As a result, the costs of dealing with legislation would be higher.

"Annual leave is the worst one. The legislation makes it fairly complicated because whoever writes this legislative procedure assumes that you're working nine till five, Monday to Friday. The big problem we've had is having to write our interpretation because some may be working 12, 48, 60 hours a week."

(Group, 26-49 employees, not contributing/non-provider, Birmingham)

- **High up-front costs.** Implementing previous legislative reforms also became more of an issue, or perhaps simply more memorable, when they involved a high degree of cost up front. The most significant of these was the disability legislation. A number of employers had experience of one-off costs for making changes to their premises, the largest of which was installing a lift at a cost of £10,000.

“For disability access we did the absolute minimum required because the cost was so prohibitive. We just couldn’t afford all that”.

(Group, 11-25 employees, contributing, Bristol)

4.4 Implementing stakeholder pensions legislation

Very few employers could recall what was involved in implementing stakeholder pensions’ legislation. Many had inherited a scheme which had already been set-up prior to them joining the company; others were unable to remember in any great detail as it was quite some time ago.

Those who were involved in implementing the legislation recalled that the process involved liaising with several pension providers, seeking advice from financial advisers and then informing employees of their options. If at that point employees decided that they were not interested in a pension, those employers took no more action and did not set up a scheme. They, therefore, had no experience of the administration involved.

Those employers that made a contribution to their employees’ pension relied heavily on their accountant and had limited awareness of the process.

Employers that dealt with the administration of stakeholder pensions in-house still relied on advice from accountants and financial advisers for the selection and registration of the scheme. In these instances, employers generally had only a vague recollection of what was involved in setting up the in-house administration, stating that they had gone through the process a long time ago. One recalled having to update pay slips, but little other detail.

“I didn’t really take much notice really, our financial adviser dealt with it all.”

(Interview, 1-4 employees, other, contributing <3%, participation rate 0 per cent-25 per cent, wholly in-house computerised administration)

4.5 Managing the cost of previous legislative change

Small employers were generally unaware of the costs of previous reforms, or the way in which the costs were managed. There was little evidence of small employers being involved in any financial planning for the short-term set-up, or ongoing cost of previous reforms. A typical response to questions regarding how employers had covered the costs of reforms such as the minimum wage, which could have considerable impact on company finances, was generally a vague reference to ‘absorbing’ them.

"We just absorbed it [cost of minimum wage]. There's not a separate cost to it ... apart from the effect on turnover."

(Interview, 26-49 employees, services, not contributing, wholly in-house computerised administration)

There were two key issues that influenced small employers' attitudes towards financial management of legislative reforms – reliance on outsourcing and a perception that there were limited options for dealing with the cost of legislation.

4.6 Reliance on outsourcing

Previous research¹¹ has indicated a high degree of outsourcing for both payroll (42 per cent) and pension scheme administration (67 per cent) (Tables C.4 and C.5). In this study the effect of outsourcing had a number of implications:

- a lack of personal involvement in dealing with previous legislative change meant that they were largely unaware of the administrative costs involved, with employers being unable to identify the cost of dealing with legislative change within their annual accountants fee. For example, few employers with experience of setting up a stakeholder pension scheme could recall the costs involved. When employers did suggest a cost it was estimated at between £250 and £500.

'We went to an independent financial adviser and we said to him "which is the best way" He actually set it up so I suppose there is a cost element, but we pay for that at the end of the year when he sends in his invoice. It wasn't a separate bill saying "this is going to cost you x amount".'

(Interview, one to four employees, other, contributing <3%, participation rate 0 per cent-25 per cent, wholly-in computerised administration)

- a focus on the day-to-day running of the organisation, rather than day-to-day financial management. Consequently, while employers were aware of their overall turnover, costs and profit they were much less aware of how their costs were broken down. Consequently, they could not recall the overall cost of legislation even when it could affect the entire workforce, such as the minimum wage.

"It was [an extra] 57 or 58p [an hour] or whatever it was, naturally our overheads increased but not significantly."

(Interview, 26-49 employees, services, non contributor, in-house computerised administration)

Overall, there was a perception that pensions require expert knowledge. Consequently, employers that were not currently providing, or contributing to, a

¹¹ Grant, C., Fitzpatrick, A., Sinclair, P. and Donovan, J.L. (2008). *Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Report No. 546, Leeds.

pension scheme tended to suggest that they would outsource the administration of the pension scheme.

4.7 Limited options

Implementing Government legislation was regarded as an unavoidable cost with employers considering that they had limited options for covering the cost of the reforms.

Some of the costs of legislative change could be passed on to customers. These tended to be those directly linked to the service being provided, such as the cost of Home Improvement Packs for estate agents.

Thinking about future legislative change, most of the employers in the study thought that there was little point in planning. This was because the costs were unavoidable and they considered that it was difficult to predict the costs of legislative change with any certainty.

“The costs are the costs. You manage them. You just have to carry on don’t you? You’re given the directive by the Government that they’ve brought in and you’ve just got to do it.”

(Group, 11-25 employees, not contributing/non-provider London)

5 Implementing the 2012 workplace pension reforms

Employers were asked to consider a certain set of administrative tasks required to implement the workplace pension reforms. In the group discussion respondents were asked for a spontaneous 'journey' and to estimate the time and costs involved. This was explored in more detail in the follow-up interviews when respondents were presented with a list of tasks suggested by the Department for Work and Pensions (DWP) and they were asked to estimate the timeframes required to complete them. A list of the administrative tasks may be found in Appendix A (Card C).

The chapter begins by considering the tasks that employers thought would be necessary to implement the workplace pension reforms, comparing them to the set of tasks that DWP wanted to explore in more detail. The chapter continues by considering how employers would manage three specific sets of tasks: automatic enrolment, opt-outs and refunds. The chapter concludes by exploring the advice that employers would seek.

5.1 The expected administrative set-up process and costs

Although employers initially struggled to identify the administrative process they would have to go through to implement the pension reforms, ultimately there was considerable consensus among all employers, even amongst those currently providing a pension scheme and those that were not.

The tasks identified as necessary for implementing the reforms were:

- seeking advice;
- selecting a pension scheme¹²;
- communicating with employees;
- upgrading payroll systems;
- communicating with the pension provider; and
- adjusting payroll.

This was fairly similar, albeit less detailed than the tasks suggested by DWP which also included the following:

- **Automatic enrolment.** Retrieving employee information; providing a personalised letter to the employee with information about the scheme¹³; adjusting payroll; providing information to the scheme; and receiving payment details for contributions for each employee.
- **Opt-out.** Employee requesting opt-out form; employer receiving opt-out form and forwarding to the scheme; returning any incorrectly completed forms to employee; and adjusting payroll.
- **Refunds.** Calculating deductions; refunding employee; and receiving refund from the scheme.

Employers were provided with a list of certain tasks, and although the processes they identified themselves were similar to those supplied, they noted that the set of tasks DWP supplied had not included time for employers to seek external advice or assigned any time for meetings with staff to explain the reforms. Additionally, employers did not spontaneously separate out dealing with refunds from adjusting the payroll system. This was because employers were unaware that they would be responsible for this, presuming that it would be handled by the pension provider.

Employers were asked to consider each of the DWP tasks and to estimate the amount of time they would expect each task to take. Employers struggled with assigning time estimates, particularly those that were generally reliant on other members of staff to deal with the company administration and upon accountants

¹² Employers that already have a pension scheme may not need to change their existing scheme. However, employers that were offering a pension still included this stage, as they were unsure of the rules regarding current pensions complying with the 2012 reforms.

¹³ Stimulus provided by DWP for use in research outlined that information would have to be provided in a personalised letter. However, DWP has since specified that in 2012 employers will be required to provide employees with jobholder-specific enrolment information. This will be a standard document with some personalised sections.

for advice on legislation and payroll. They had little knowledge of the detail of their administration processes and as a result were less well placed to estimate the time required to implement the administrative aspects of 2012 reforms.

5.2 Managing automatic enrolment

When considering automatic enrolment, employers tended to think of two specific tasks that would need to be undertaken: communicating the pension reforms to employees and adjusting the payroll.

5.2.1 Communicating with employees

Employers considered that they would need to communicate the 2012 pension reforms to employees in a number of ways, with some methods being appropriate only for larger companies:

- providing written information provided by DWP;
- holding staff meetings (larger employers only);
- one-to-one sessions with employees to answer any queries; and
- retrieving opt-out forms from employees was also included in this task. Small employers tended to struggle to assign a cost to this part of the process.

Employers thought it would be important to inform all employees of the new legislation, irrespective of whether they were already in the workplace pension scheme.

All the employers in the study thought that employee communication could be a time-consuming process. Employers of different sizes and working patterns thought that they would deliver information in different ways:

- All the employers would distribute any written information to all employees. If this was to be personalised information, employers estimated that it could take between two and five minutes per employee to generate and distribute.
- Those with more than ten employees thought that they would hold a company information meeting. They thought that an hour-long meeting would suffice.
- Where there were workers operating shift patterns, employers thought they might have to run up to five sessions in order to cover all their employees.
- Employers with more than ten employees also thought that employees should be entitled to a one-to-one session in order to answer queries. They estimated that this could be up to 30 minutes in length per employee.
- Employers with less than ten employees thought they might use one-to-one sessions rather than a company meeting.

- The cost of verbally communicating with staff was very difficult for employers to estimate but suggestions of between £30-40 per employee, per hour were made, or a 'lump sum' of between £500 and £1,000 for a financial adviser to visit, plus lost employee time.

None of the employers mentioned the role of HR in relation to communicating the pension reforms to employees.

5.2.2 Communicating with pension providers

Employers were aware that the pension provider would have to be informed about employees enrolling in the scheme, their contribution rate, and people who had opted out. They were not, however, aware of exactly how this would be done or by whom and so it was difficult for them to estimate a time and a cost. When pressed, they suggested that the process would be relatively simple and probably dealt with on-line. Estimates of between one and five minutes per employee were given.

5.2.3 Upgrading payroll systems (purchasing and installing new software)

All employers included upgrading the payroll system as part of the administrative process, although very little time was associated with it. On average, between one and four minutes per employee were assigned to this task; employers with a manual payroll estimated that the task could take up to 30 minutes per employee.

Employers dealing with payroll in-house expected this to be automatically updated by their software provider or that a disc would be provided that would be quick and easy to install. Employers that outsourced their payroll presumed that this would be handled by their bookkeeper or accountant and would not, therefore, have any time, or cost, implication for them.

When considering the cost of this task, many employers thought this would be included in the annual fee paid to their system provider (such as Sage), and was therefore regarded as cost-free. Others felt that there would be an additional charge for an upgrade or that providers may increase their annual fee as a result. The most common extra cost for this upgrade was £200-£300, and this was generally based on previous upgrade figures. However, some employers appeared to be guessing, with the largest estimated additional cost being £1,400. Where a fee was expected it was presumed to be a flat rate for the update rather than linked to the number of employees.

Many of those expecting an additional charge suggested that this should be paid for by the Government.

"It's their [the Government] introduction. I don't think it's something else that I should have to withstand."

(Interview, 11-25 employees, manufacturing, contribution <3%, participation rate 26 per cent-75 per cent, wholly in-house computerised administration)

5.3 Managing opt-outs

5.3.1 Dealing with employees

Employers expected a substantial amount of elapsed time between employees requesting an opt-out form and returning it to the employer.

Some employers assumed it would be their role to chase up employees who had not returned an opt-out form. If it was their responsibility to chase up opt-out forms then they expected that it could be very time consuming.

However, most thought that while the employer would be responsible for providing an opt-out form,¹⁴ it was the responsibility of the employee to return it. If this was the case then the time taken by the employer would only be for the issuing of a form. No cost was directly placed on issuing employee opt-out forms as it was not thought to be a task that would interfere with someone's existing role.

Considering the opt-out process, employers were concerned that this could become expensive if there were no restrictions placed on the frequency with which employees' could request such changes¹⁵.

'The problems start when somebody comes to you and says "oh, well I don't want to pay in this month, I want to freeze it for a month and then I want to start it again". How do you work out the cost for dealing with that?'

(Interview, five to ten employees, services, contributing >3%, participation rate 26 per cent-75 per cent, wholly in-house computerised administration)

5.3.2 Communicating with pension scheme providers

Employers were unsure about how many employees would opt-out and how they would be required to inform the pension provider of employee details.

Employers thought that this task could easily be undertaken on-line using information that was easily accessible from existing payroll information; it might take one or two minutes.

5.4 Managing refunds

There was very little consideration given to the refund process and it was not mentioned spontaneously.

¹⁴ The opt-out form is sourced from the scheme. Where the trustees or managers have delegated the administration of the scheme to the employer in the trust deed, the regulations allow this existing practice to continue and the employer can be the source of the opt-out form.

¹⁵ Proposed legislation states that employees will be allowed to opt in once every 12 months, but employers were not aware of this during the research.

Most employers, even those currently contributing to a pension scheme, were unaware that they would initially have to refund an opted-out employee and then be refunded by the pension scheme provider. While the majority of employers felt that this would be dealt with by their bookkeeper or accountant and would not cost very much in terms of time, some found it confusing and unfair. Employers had expected that any refunds would be made by the pension provider first, as opposed to the company having to cover these costs.

'The trouble is, you're relying on another company to get your refunds back and, they make it very awkward. It's always a nightmare to send letters off, wait for returns and it's always a problem, there's always things missing.'

(Interview, five to ten employees, manufacturing, non-provider, wholly in-house computerised administration)

In terms of the amount of time this might take, employers with automated payroll systems thought the refund task might take up to two minutes to process; for manual systems, the time would be longer, taking up to 30 minutes to undertake the calculation and make the refund.

5.5 Obtaining advice

5.5.1 Sources of advice

All employers, whether they were already providing a pension or not, stated that they would need time to seek external advice regarding the 2012 workplace pension reforms from accountants, Independent Financial Advisers (IFAs) or a pensions expert. The type of information employers said they would require included guidance about their responsibilities; which pension scheme would be best for their company and their employees; the financial implications of pension contributions and any budgeting that would be necessary; and finally, guidance on the process of setting up a scheme¹⁶.

The fact that employers were including budgeting advice is interesting as there was no evidence of budgeting for any previous reforms, including the introduction of stakeholder pensions. This may be a reflection of the level of discussion taking place during the research and a realisation that given the financial implications of the pension reforms it would be advisable to budget accordingly.

"You'd have to budget accordingly. You can't just say you'll pay every employee 3% because what if you can't afford it? You'd have to speak to your accountant."

(Group, 1-4 employees, contributing, London)

¹⁶ It is important to note that many of these questions will be answered once the Pensions Regulator start their communications and education campaign which is designed to help employers, and the intermediaries that employers rely on for help and advice, to understand what must be done to meet the new employer duties.

Another area of advice that was particularly pertinent for employers was that of determining whether their existing pension scheme would meet the requirements of the legislation and whether there would be benefit in running the personal accounts scheme alongside their current scheme. The larger employers with a high take-up of existing pension schemes – predominantly those offering higher levels of employer contribution or those matching employee contributions – were confident that the pension scheme they had in place would comply with the new legislation. Nevertheless, they would check with their accountant or financial adviser.

Similarly, others would take advice regarding whether it would be easier and more cost effective to transfer those already in their current pension scheme to a personal accounts scheme.

‘I would have to just look to see how our company would fit into that...I would have to look into them and just see which is better for the employer or better for the employee. At this stage there’s not enough information on here for me to actually know really where I’m going with this. I’d have to ask my accountant.’

(Interview, one to four employees, other, contributing <3%, participation rate 0 per cent-25 per cent, wholly in-house computerised administration)

5.5.2 Estimated cost of advice

Employers generally found it difficult to estimate the amount of time it would take to seek advice. Between two days to a week was the range, with higher estimates arising from employers that were non-providers.

Where employers could recall implementing a stakeholder pension they thought that there would be an additional accountancy fee plus financial adviser fees for advice.

Employers that were using accountants for advice generally paid an annual fee for their work but were often unsure of the total for cost for this. Some employers felt that any advice given regarding the reforms and any administration that was undertaken by accountants, bookkeepers or IFAs would be included in the existing annual fee. Others, however, suggested that an additional fee, generally between £200 and £1,000 may be charged for the extra workload. The highest estimates of £2,500 and £5,000 came from employers with over 26 employees that were not currently contributing to a pension scheme.

Only a few employers from larger companies were able to provide an indication of the extra cost for their own time spent with an external adviser and for internal consultation with directors. The remaining respondents had difficulties placing a value on their own time; they did not even consider it as a cost, even though many thought it could take a couple of days.

'If I'm basing it on my time? You don't really think about it like that. £500?'

(Group, 26-49 employees, not contributing/non-provider, Birmingham)

5.6 Communicating with the Pensions Regulator

Employers did not spontaneously include registering the pension scheme with the Pensions Regulator (TPR), however, they were told that this would be one of the administrative processes. There was very little awareness of what registering with TPR would involve; selecting a pension scheme and registering it were seen as the same issue rather than separate tasks and this was very much regarded as something that would be dealt with by an accountant or the pension provider.

'I don't know who would be responsible for registering? Us? The pension company because they are taking on the new policy?'

(Interview, 11-25 employees, manufacturing, contribution <3%, participation rate 26 per cent-75 per cent, wholly in-house computerised administration)

The assumption was that this process would be managed on-line; employers thought it might take up to ten minutes to register a pension scheme with TPR.

5.7 Ongoing administrative tasks

Once the administrative system had been set up, employers thought that there would be a number of ongoing administrative tasks, each of which would have an associated cost. However, the time and cost associated with these was thought to be minimal. The tasks that were identified included dealing with:

- monthly pension scheme contribution deductions;
- salary increases and subsequent contribution adjustments;
- new joiners and leavers;
- annual statements;
- annual reviews of pension scheme performance;
- employees opting in or out; and
- employees adjusting their contribution rates.

For all employers, whether or not they were already contributing to a pension scheme, tasks that could be integrated into existing payroll systems were thought to be simple and of little expense. These tasks included monthly deductions and dealing with changes in contribution amount as a result of changes in salary. These were seen as annual adjustments that could be easily dealt with.

Similarly, it was expected that dealing with new joiners and leavers would not be expensive as systems would already be in place for dealing with this and could be administered alongside setting up their payroll details. This was, however, thought to be more time consuming among employers in industries with a higher staff turnover, such as retail and cleaning services, although not to the extent that cost would become an issue.

All employers also expected the pension provider to be responsible for providing employees with annual statements and so there was no cost attributed to the employer.

All employers felt that they would want to review the performance of their chosen pension scheme to ensure that it was the best for both the company and its employees. While employers were often negative about being responsible for pensions, they generally supported the idea of a saving culture and should they have to contribute to a company pension they would want to ensure that it is worthwhile. They were also concerned about being liable for their selected scheme so it was important for them to feel confident about a scheme's performance. This was expected to involve a discussion with an accountant or IFA. As a one-off annual task, the cost of this was thought to either be included in existing fees or be a one-off payment that would not be a significant issue in relation to company turnover.

5.8 Managing the administrative costs

Employers found it difficult to estimate the cost of implementing the administrative processes for the 2012 pension reforms although they made an attempt to do so. The most difficult issue that faced employers was costing for time that they do not usually charge to customers.

Employers indicated that in their experience the forthcoming pension reforms would be similar to the implementation of the Disability Act in which they may incur a large initial expense and smaller ongoing costs. This would be particularly so for employers that do not operate a pension scheme or have a low take-up rate.

Employers reported that they had managed these costs in the past by absorbing them and thought they would do the same for the cost of the administrative set up of the 2012 pension reforms. As with previous legislation, there was little evidence that employers would budget for the cost of the administration of the pension reforms.

'It'll be extra costs that month, paying the supervisor extra hours. But you'll absorb it.'

(Interview, 26-49 employees, services, not contributing, wholly in-house computerised administration)

6 Managing the contribution costs of 2012 workplace pension reforms

Employers were asked to consider the contribution costs of the 2012 reforms. In order to take into account the impact that the economic climate at the time of the research might have had on responses, they were presented with three different economic scenarios and asked how they would manage the contribution costs in each one.

The scenarios used were:

- continued economic uncertainty;
- the beginning of economic recovery; and
- full economic recovery.

This chapter outlines the various strategies that employers proposed for each scenario. It also addresses the possible impact of the phasing in of contributions.

6.1 The expected cost of pension scheme contributions

When asked for top-of-mind costs for their current pension contributions, most employers that were currently contributing to a pension scheme were unable to provide accurate monthly costs. This was in part because employers tended not to think about their costs in this way and in part because their pension provision was quite complicated. For example, in larger companies, employers were often unaware of the exact number of people enrolled in the company pension scheme, with employers often contributing different rates for different employees. Employers therefore found it difficult to project forward to 2012 and estimate what the additional contribution costs of the pension reforms may be.

The issue was further complicated by expectations of employee opt-out. On the one hand employers expected a high degree of opt-out; on the other they were concerned that inertia may mean that fewer employees may opt out than expected. Consequently, employers did not know what basis on which to make their estimates. Where employers were willing to estimate the additional contribution costs, this ranged from 'a few hundred pounds' to £4,000 a year, with estimates being based on how many employees they thought would realistically be expected to remain in the pension scheme.

When asked about the basis on which their estimates were made, employers generally indicated that they had assumed a high degree of opt-out and that their estimates were on the low side. The reasons for this have been discussed in Section 3.3.

'The people already in a pension are happy. Of the 36 who aren't? Imagine it's 2012 and I offered it to staff today. I guarantee on Monday I would end up with 36 odd pieces of paper on my desk saying "thanks but no thanks; I will have the cash".'

(Interview, 26-49 employees, manufacturing, contributing <3%, participation rate 26 per cent-75 per cent, contracted-out administration)

Employers were initially concerned about the potential for increased contribution costs, with non-contributors being the most concerned and contributors with high participation rates and micro employers being the least concerned. However, their concerns tended to diminish when they thought about whether their employees would wish to remain in the pension scheme or opt out. As discussed earlier, opt-out rates were expected to be high, with the consequence that an increase in costs would be small.

6.1.1 Economic scenarios

In order to explore the impact of the economic climate on small employers' reactions to the reforms, respondents were presented with three different economic scenarios and asked to consider how they would manage the costs of pension contributions in each situation. The scenarios were presented in the following order: continued economic uncertainty; beginning of economic recovery; and full economic recovery.

6.2 Managing the costs in a time of continued economic uncertainty

The economy continues to be characterised by uncertainty:

Banks are still very reticent to lend money to individuals and small businesses

Unemployment is relatively high – seven per cent.

Consumer confidence is low, with no end in sight.

Government has cut public spending.

The value of the pound continues to be low against other major currencies.

Some businesses are doing better than others:

The financial services industry is hit hardest as markets stagnate.

Property market is still very slow as prices stagnate and few people are moving.

The construction industry has only been buoyed by the Olympics.

Retail sales are patchy – some stores doing better than others.

The UK tourism industry benefits from the weaker pound, as UK residents choose not to travel and it becomes a cheaper destination for people living abroad.

Employers thought that in this economic climate it would be unlikely that employees would want to see a reduction in take home pay and so they would probably opt out of the scheme anyway.

If this was not the case, in a time of economic uncertainty employers that potentially faced an increase in their pension bill were concerned that they would be unable to pass on any additional costs to customers, or be able to afford to absorb the costs by reducing profits as they had already squeezed their profit margins. The most common suggestion was to reduce the wage bill. Suggested methods for achieving this included:

- **Reducing wages to cover contributions:** While employers felt that this might not be possible or fair for current staff, they thought that if they needed to employ new people they would consider reducing their starting salary to cover the 3% contribution costs. For existing staff, wages might have to be frozen and bonuses and other benefits such as childcare vouchers no longer offered. Employers also suggested that they would have to reduce overtime pay.

"It'll impact on the salaries that you'll pay because what I will probably do is...I'm going to have to build this into the actual salary that I pay."

(Group, five to ten employees, contributing, Birmingham)

'We operate a bonus scheme on a week-by-week basis. We might take the view "well we've got these additional pension costs, we'll review the bonus scheme and we might draw that back".'

(Group, 11-25 employees, not contributing /non-provider, Birmingham)

- **Adjusting staff hours:** Some employers, particularly those with a workforce of full-time employees, suggested that they would consider reducing staff from full-time to part-time. They also thought that they could use contract workers rather than permanent staff and that they could reduce wages by reducing staff hours.
- **Making redundancies:** Among employers who suggested this, losing one employee was generally seen as enough to cover the cost of increased participation rates. While on the one hand it was a very unpopular option, it was also a common suggestion in this scenario with employers stating that it would be better to make one redundancy than have the whole company close.

'We are being forced into increased administration and increased cost which affects the whole of the workforce, because as I was saying we may have to make redundancies. Okay, in 2012 we don't know what will happen, but if it was brought in now the increase in costs would mean we would definitely have to make redundancies.'

(Group, 26-49 employees, contributing, Manchester)

Employers also suggested that they might encourage their employees to opt out of the pension scheme. Although employers were told that this would be illegal, they felt confident that they could achieve this by:

- suggesting that pensions were not a secure way of saving money;
- informing staff that they had an option of a pension contribution or pay increases, benefits or bonuses;
- making the process of remaining in the scheme difficult for staff by holding meetings out of work hours or involving lots of paperwork; and
- finding legal loopholes such as the possibility of writing automatic opt-out into contracts, thus making employers actively have to opt-in (employers were unaware that this would be illegal).

'I'd just say to them "I don't think you should do this right now".'

(Group, 26-49 employees, not contributing, retail, Birmingham)

Employers made no mention of the increased administrative burden created by encouraging employees to opt out. Their focus was on the financial benefit of not making a contribution to a pension scheme rather than the administrative tasks involved¹⁷.

¹⁷ The fact that individuals who opted out of the scheme would eventually have to be re-enrolled was not covered in this research.

6.3 Managing the costs at the beginning of economic recovery

After 2 years of recession, the economy is starting to grow again:

Despite increased regulation, financial services organisations are starting to be able to lend money again to individuals and businesses.

The property market is moving again, with prices overtaking 2007 levels and the number of sales increasing.

Consumer confidence in the economy is returning – not just in the UK but on a global basis.

The value of the pound recovers.

The employment market is more buoyant, as unemployment falls rapidly and there are lots of opportunities for jobseekers.

Most businesses are seeing the benefits of the end of the recession:

Retail sales are very healthy, as consumers reap the benefits of increased disposable income.

The financial service industry begins to see an upturn as confidence and stability return.

Employers were still concerned about passing any increase in pension costs on to customers and there remained a reluctance to affect profitability. Employers thought that redundancies were much less likely as a means of making cost savings but thought they would cover the additional cost of contributions by reducing the company wage bill by freezing recruitment, freezing wages, reducing or not paying bonuses or other benefits and reducing staff hours. Further suggestions for reducing overheads included cancelling cleaners and mobile phone contracts.

Although there were some employers that continued to consider encouraging employee opt-out, this was considerably reduced.

6.4 Managing the costs in a time of full economic recovery

The credit crunch and recession affecting the UK economy in 2008-09 turn out to be less severe than most people initially feared:

The UK recession officially finishes in mid-2009, as the economy picks up following a dramatic Obama-led recovery in the US.

The flow of credit improves dramatically, with banks lending to each other, consumers and businesses.

Property prices recover quickly, as consumers take advantage of the bargains available and lower interest rates.

There is a partial recovery in the value of the pound, although it does not reach levels reached in 2007.

The mood in the UK is vibrant, boosted by the excitement about the forthcoming Olympics:

Most industries are now seeing a healthy outlook, with the return of economic stability following a period of uncertainty.

Employers were far more supportive of the reforms in this scenario, with the majority confident that they could cover the cost of the contributions without adversely affecting employee wages. Instead, it was suggested that costs would be covered by:

- absorbing them as part of their overheads and reducing overall profits; or
- passing the costs onto customers or clients.

"You wouldn't really worry about how to manage the costs would you? If things are going well and you're making a profit it doesn't matter that much. You just absorb it. And you don't mind spending 3% on your staff if you're going well."

(Group, 5-10 employees, contributing, Birmingham)

Despite this, there was still a degree of negativity towards the idea of the pension reforms with some employers maintaining that it should be the responsibility of either Government or the individual to save for retirement. A small number of these employers also suggested that they would still encourage opt-out as they will always seek to maximise profits, even in times of financial success. These attitudes were most prevalent among employers that were not providing or contributing to a pension scheme.

"My attitude towards the pension fund would still be no more enthusiastic. We'd always try to minimise the cost."

(Group, 26-49 employees, not contributing/non-provider, Birmingham)

6.5 The potential impact of phasing contributions

It was explained to employers that they would be able to phase in contributions in stages of 1%, 2% and 3% over time and that employee contributions could also be phased.

There were mixed views regarding phasing. On the whole employers that were not already providing, or contributing to, a scheme were more positive about the idea than those that were contributing. This was particularly the case for larger companies for whom set-up and contribution costs had the potential to be higher. Employers that were planning on outsourcing the administration to accountants or bookkeepers were also more positive about the idea as they would not have to deal with any of the additional administration it might involve.

The main benefits for those that supported the idea of phasing were the opportunity it gives to work the costs into the company cash flow and that it will 'soften the blow' as set-up and full contribution costs would not be experienced at the same time. They also tended to believe that once the scheme was in place, phasing in contributions would have minimal administrative and financial implications and that the lower contribution rates would act as a way of easing employees into the pension scheme as they could afford the lower level of contribution.

The idea of phasing in for new employees and new scheme members held less appeal among employers that were already contributing to a pension scheme. They felt that it would be less time consuming and therefore, less costly to implement the reforms with a 3% contribution from the outset. This group of employers also felt that this approach would be more beneficial to employees as it would be less confusing. In addition, they also felt that anything less than a 2% contribution was financially pointless.

While there were differences in opinion about phasing, they were not particularly strongly held views and the idea was generally regarded as a way of 'postponing the inevitable'. There was, however, consensus that if phasing were introduced it should take place in April, to coincide with the tax year.

Appendix A

Topic guides and show cards

DWP Research

Small employers and the 2012 pension reforms

Topic guide (Depth interviews)

RESEARCH AIMS:

- To explore the ability of small employers to cover the costs (both initial and ongoing) of the 2012 pension reforms and how they will do this particularly around:
 - o phasing in of contributions
 - o adapting their administrative systems as the reforms are introduced and on-going administrative costs
- To gain a deeper understanding of the past experiences of small employers when the Government has introduced comparable legislation to inform the DWP approach to the 2012 pension reforms.
- To gather specific evidence about current administrative systems in small businesses, how these will need to adapt to comply with the reforms and what their systems may be like post-2012.

Note to interviewer:

The research is interested in:

- *the costs of minimum compliance with the reforms*
- *employers' ability to meet these minimum requirements rather than their preferences. And as a secondary issue if they are going to go beyond the minimum requirements we would be interested in knowing in what ways and why*

1. INTRODUCTION

- About BMRB – independent research organisation
- Commissioned by DWP
- Aims of the project
- Content of interview
 - *We will be discussing the forthcoming 2012 pension reforms. Some of the respondents may not know about some aspects of the reforms and will provide information as we progress with the interview.*
- Confidentiality/recording
- Duration of interview (1 hour)

2. BACKGROUND / CONTEXT (KEEP BRIEF)

- General characteristics of the employer
 - Nature of industry
 - Time business has been in existence
 - Time participant has worked for organisation
 - Employees
 - Number
 - Nature of workforce (full-time, part-time, contract)
 - Turnover of employees /average length of service
- Business development over the previous five years – brief overview
 - Growth
 - Turnover
 - Recruitment/ redundancies
 - Profitability
- Business outlook over the next five years – brief overview
 - Growth
 - Turnover
 - Recruitment/ redundancies
 - Profitability
- Pension provision (may be multiple schemes)
 - Do they currently provide a pension scheme
 - Contribution rates

- o Employer
- o Employee
 - Proportion of workforce eligible
 - Are pensions targeted on specific employee groups; reasons
 - Proportion of whole workforce participating in the pension scheme
 - Proportion of eligible workforce
- o Reasons for providing a pension scheme or not
- o What are the current costs of their pension scheme contributions (if any)
- Payroll systems
 - o Manual / computerised
 - o In-house / contracted out (wholly or partially)
 - o Do they have multiple payroll systems; reasons

3. DEALING WITH MAJOR CHANGES IN LEGISLATION

(ASK only if it is clear from the group discussion that they have experienced any major changes in legislation)

- Experience of any major changes in government legislation
 - o Minimum Wage legislation – Particularly how they dealt with increases
 - o Maternity / Paternity legislation
 - o Introduction of stakeholder pensions (setting up a pension, ensuring it complies, possibly contribution costs)
 - o Disability legislation (Focus on how they coped with the costs)
 - o Changes in minimum annual leave requirements
 - what administrative changes did they make; what were the costs
 - o HMRC moving to electronic filing of tax returns
 - what administrative changes did they make; what were the costs
 - o Any other legislative change that has lead to costs or changes to admin systems
- Can they recall what they did in response to the reforms
 - o Direct costs
 - o Administrative changes
- Can they recall anything the government did that helped them with the introduction of these reforms?

- Can they suggest any improvements to what the government did or what could they have done to make the introduction easier for small employers (try to get realistic/ constructive suggestions)
- How long did it take to deal with these reforms
 - o What time period was the change over (was this too long, too short?)
 - o How long in terms of staff time to deal with changes (introduction and steady state)
- Can they recall the costs of dealing with these reforms
 - o Distinguish between administration costs and other costs
 - o Distinguish between initial set up costs and on-going costs
- How did they manage the costs
 - o Did they phase the costs in; how; did this help?

4. MANAGING THE COSTS OF THE 2012 PENSION REFORMS

Remind employers of the pension reforms using Card A

Card A

- 1 From 2012 the Government plans to introduce new obligations on employers to automatically enrol eligible workers into qualifying workplace pension provision and to provide a minimum contribution. This is intended to encourage wider participation in private pension saving, by
 - Overcoming inertia that affects decision-making
 - Making it both easier and more attractive for individuals to save for their retirement
- 2 Workers who are enrolled automatically will be able to opt out of workplace pension saving if they wish.
- 3 Contribution rates are based upon a band of earnings (around £5,000 and £33,500):
 - Their employer will make a minimum contribution of 3% of the band of earnings.
 - Total contributions (from employer, employee and tax relief) must be 8% of the banded earnings.
- 4 From 2012 the Government also plans to introduce a new national occupational pension scheme, 'Personal Accounts' that employers can use as a qualifying pension scheme. This will be run at arm's length from Government by a sole corporate trustee.
- 5 'Qualifying' workplace schemes can include occupational pension schemes, group personal pension schemes, group stakeholder schemes and the new 'personal accounts' scheme.

- o Do they perceive any difference in set-up required for the different schemes?
- o Occupational pension scheme administered in-house
 - Why do they want to go so far beyond the minimum
 - *Try to see if they have thought this through*
- What proportion of your employees do you think will remain in the pension scheme (i.e. not opt out)
 - o *If encouraging opt-out is mentioned, ask why and how*
- When the reforms are implemented what would be the costs of their pension scheme contributions
 - o How are they estimating these
- *Refer to management strategy discussed in the group discussion*
- Since participating in the group discussion have they:
 - o Thought about the pension reforms any more
 - o Have they thought about how they would manage the costs of the reforms
 - Have they discussed the pension reforms with anyone
 - Internal; who
 - External; who
- If they have not discussed the pension reforms who would they be likely to discuss them with
 - Internal
 - External
- Does their strategy for managing the costs of reforms differ from the thoughts in the group discussion
 - o Reasons for this
 - o Explore the idea of encouraging opt out – why and how
 - o If they mention freezing wages/reducing bonuses explore if this will be based on individual cases (i.e. only for the people who stay in) or across the whole company?
- Introduce the concept of Phasing (Show Card B)

CARD B – Phasing

When the reforms are introduced employers will be able to 'phase' in the contributions. This means that for an initial period they will only be required to make 1% contributions, then 2% for a second period, before moving up to the full 3%.

This is intended to help employers who don't already make pension contributions to cope with the costs of the reforms by introducing the costs gradually over a period of time.

Phasing will be allowed in three stages – 1%, 2% and the 3% ongoing contribution.

The time period over which phasing will occur has yet to be decided.

Employee contributions will also be phased in.

- Review preferences for phasing (from group discussion). If different why (may be different person too)
- Explore whether phasing of contributions (on workplace schemes) would influence how they deal with the costs of the pension reforms
 - how
- Do their views on phasing change after they've thought through the admin processes involved?
- When during the year should the phasing increases occur
 - o What if it was April
 - o Reasons for choice of month

5. ADMINISTRATIVE CHANGES

Research has been suggested that the administration of the pension reforms will involve the following processes:

Auto Enrol Jobholders	Retrieve Employee Information for Letter and to provide for Scheme e.g. NINO etc
	Personalise letter to employee and provide information within 7 or 14 days.
	Adjust Payroll
	Provide Information to Scheme
	Employer receives payment details for contributions (once per employer)
Opt-Out	Employee requests Opt-Out form from the employer
	Employer Receives Opt-out + Forward to Scheme
	Give back opt out form to the employee if not correctly completed
	Adjust Payroll
Refunds	Calculate deduction from day 1
	Refund employee
	Receive and process refund from scheme

- Are the stages of the process correct

Note: the stages above are based on the minimum required to comply with the reforms; limit discussion to minimum compliance rather than ideally what they would like to do. Focus is on how long it will take to do each individual task rather than the entire process

- o Do they envisage any other stages; what and why
- o If they are likely to go beyond the minimum
 - What are they likely to do
 - How
 - Reasons why
- For each stage of the process how much time would this take (please push to identify how long it will take them to do each specific task and thorough explanation of reasoning)
 - o Unprompted
 - o Show DWP estimates relevant to their company size (Using Card C)
 - Do they want to revise?
 - On what basis

- Who in the organisation would do each of these processes
- Are there 'one off' activities associated with the initial implementation of the pension reforms
 - o What are these process
 - Registering/informing TPR (The Pensions Regulator) of their scheme
 - o How long would they take
- Are there ongoing administrative processes
 - o What are these process
 - o How long would they take
 - o What are the associated costs
- How do they currently store employee records?
 - o Any experience of previous government record keeping requirements e.g. switching to e-filing?
 - o What will be involved in storing employee pension records?
 - o Does the length of time they need to keep records affect the costs?
 - If so how
 - If not why not
 - o What are the costs of keeping pension records for every employee for:
 - 1-2 years
 - 3-4 years
 - 5-6 years
- Would they need to change their administration systems at all
 - o E.g. move from manual to computerised
 - o Contract out
 - o Update software
 - o What would be the associated costs
- Will they change administrative systems
 - o Is this because of the reforms

- IF they intend to set up their own pension scheme
 - o Explore why they are doing it
 - o What administrative process do they envisage setting up
 - o For each process ask for an estimate of the amount of time and the costs of doing this
 - Do they think that these reforms will be any harder/easier to implement than previous legislation? Why and how?
- Any other issues they wish to discuss

THANK AND CLOSE

DWP Research

Small employers and the 2012 pension reforms

Topic guide (Group discussions)

RESEARCH AIMS:

- To explore the ability of small employers to cover the costs (both initial and on-going) of the 2012 pension reforms and how they will do this particularly around:
 - o phasing in of contributions
 - o adapting their administrative systems as the reforms are introduced and ongoing administrative costs
- To gain a deeper understanding of the past experiences of small employers when the government has introduced comparable legislation to inform the DWP approach to the 2012 pension reforms.
- To gather specific evidence about current administrative systems in small businesses, how these will need to adapt to comply with the reforms and what their systems may be like post 2012.

Note to interviewer:

The research is interested in:

- *the costs of minimum compliance with the reforms*
- *employers' ability to meet these minimum requirements rather than their preferences. But as a secondary issue if they are going to go beyond the minimum requirements we would be interested in knowing in what ways and why*

1. INTRODUCTION

- About BMRB – independent research organisation
- Commissioned by DWP
- Aims of the project
- Content of interview
 - o *We will be discussing the forthcoming 2012 pension reforms. They may not know about some aspects of the reforms and will provide information as we progress with the discussion.*
- Confidentiality/recording
- Duration of group discussion (1.5 hours)

2. BACKGROUND/CONTEXT (KEEP BRIEF)

Purpose: to obtain background information to help understand their later views on the reforms and to inform the sampling for the in-depth interviews

- General characteristics of the employer
 - o Nature of industry
 - o Time business has been in existence
 - o Time participant has worked for organisation
 - o Employees
 - Number
 - Nature of workforce (full-time, part-time, contract)
 - Turnover of employees /average length of service
- Business development over the previous five years – brief overview
 - o Growth
 - Turnover
 - Recruitment/ redundancies
 - o Profitability
- Business outlook over the next five years – brief overview
 - o Growth
 - Turnover
 - Recruitment/ redundancies
 - o Profitability
- Pension provision (may be multiple schemes)
 - o Do they currently provide a pension scheme
 - Contribution rates
 - o Employer
 - o Employee
 - Proportion of workforce eligible
 - Are pensions targeted on specific employee groups; reasons
 - Proportion of eligible workforce participating in the pension scheme
 - Proportion of total workforce participating in the pension scheme
 - o Reasons for providing a pension scheme or not

- Payroll systems
 - o Manual / computerised
 - o In-house / contracted out (wholly or partially)
 - o Do they have multiple PAYE payroll systems; reasons

3. DEALING WITH MAJOR CHANGES IN LEGISLATION (BRIEFLY – TO BE EXPLORED IN THE DEPTH INTERVIEWS)

Purpose: To get an idea of who can remember adapting to comparable legislation to use for sampling in the in-depth interviews

- Have they **experienced** any major changes in government legislation
 - o Minimum Wage legislation
 - Dealing with regular increases (Comparable to pension phasing)
 - o Maternity/Paternity legislation (Ensure anyone mentioning this has actual experience)
 - o Introduction of stakeholder pensions (setting up a pension, ensuring it complies, possibly contribution costs)
 - o Disability legislation (Allow discussion ONLY on costs)
 - o Changes in minimum annual leave requirements (admin)
 - o HMRC moving to electronic filing of tax returns (admin)
 - o Any other legislative change that has lead to costs or changes to admin systems
- Can they recall what effect any of these had on the company (Briefly)
- Did their expectations match reality?(Briefly)

4. VIEWS ABOUT THE 2012 PENSION REFORMS

Purpose of section: To introduce the reforms, get initial reactions to the idea and then draw a line under it

Be sensitive in this section about the way questions are phrased – employers may not know very much about the 2012 pension reforms

Show Card A

Card A

From 2012 the Government plans to introduce new obligations on employers to automatically enrol eligible workers into qualifying workplace pension provision and to provide a minimum contribution. This is intended to encourage wider participation in private pension saving, by

- Overcoming inertia that affects decision-making
- Making it both easier and more attractive for individuals to save for their retirement

Workers who are enrolled automatically will be able to opt out workplace pension saving if they wish.

Contribution rates are based upon a band of earnings (around £5,000 and £33,500):

- Their employer will make a minimum contribution of 3% of the band of earnings.
- Total contributions (from employer, employee and tax relief) must be 8% of the banded earnings.

From 2012 the Government also plans to introduce a new national occupational pension scheme, “Personal Accounts” that employers can use as a qualifying pension scheme. This will be run at arm’s length from Government by a sole corporate trustee.

‘Qualifying’ workplace schemes can include occupational pension schemes, group personal pension schemes, group stakeholder schemes and the new ‘personal accounts’ scheme.

- Initial views about the pension reforms – positive and negative
- Have they given any thought to how they might implement the reforms
 - o Have they discussed these with anyone; who
- Have they given any thought to the effect of the reforms on the business – try to distinguish from the effects of the poor economic climate if possible
- What type of pension scheme do they think they would use
 - o Occupational pension scheme administered in-house (*use to select for depth interview*)
 - o *Have they got an understanding of the difference between the types of pension?*
 - o *Do they think there will be a difference in what they will need to do to set them up?*
- What proportion of your employees do you think will remain in the pension scheme (i.e. not opt out)

5. MANAGING THE COSTS OF THE 2012 PENSION REFORMS

Purpose of section:

- helping them to understand the reforms and think systematically about them
- give them a common situation so in analysis we can get a picture of differing views
- Ensure the group are talking about the same issue

Introduce contribution scenarios (CARD D)

Note to researcher – Show respondents the possible contribution scenarios (show print outs) to allow employers to familiarise themselves with them

Use to help employers think through the implementation of the reforms and any changes they will need to make in order to comply.

Use only ONE scenario per group. Use the scenario that best matches the employer size of the group.

- Scenario One: *Publisher and bookshop owner, Cardiff, 5 employees, no pensions scheme at present*
- Scenario Two: *Food distribution, Glasgow, 18 employees, non-contributory pension at present*
- Scenario Three: *Creative services support, Leeds, 35 employees, empty stakeholder pension*

Thinking about the pension reforms:

Based on scenarios

- What processes will the company need to go through in order to implement the pension reforms

Differentiate between initial and ongoing processes

- o *Spontaneous, then prompt*
- o Internal discussions
- o External discussions / advice – who with?
- o Changes to administrative systems (PROBE what)
- o Informing / discussing with employees

- Can they estimate the costs of these

Differentiate between initial and ongoing costs

- o Internal discussions
- o External discussions /advice

- o Administrative changes (separate out each change)
- o Informing/discussing with employees
- o Pension contributions (Link to predicted take up)
- o In terms of contributions

N.B. Please can you push to pin down exactly how long and how much each activity will cost them

Based on Their Own Company

- *Thinking about the pension reforms, will the pension reforms have any effect on their company*
 - o PROBE: effects
 - o *Note – need to distinguish from effects of economic climate*
- How will they manage the costs of pension contributions for their business in the light of the reforms?

PROBE all that arise

DO NOT PROMPT, but typical management techniques might be

- o *Amending contracts, holiday and benefit entitlements*
- o *Wage freezes*
- o *Wage cuts*
- o *Redundancies*
- o *Increasing prices*
- o *Absorbing in overheads*
- o *Not comply/ encouraging opt out (ASK for reasons if mentioned)*
- Identify why they have chosen their strategy/strategies. What are the benefits of adopting their approach over others?
 - o How have they arrived at this approach (explore whether an instant reaction or more formally thought through)
- If they mention encouraging people to opt-out please explore exactly how they will go about doing this?

Show Card B

Note to researcher – Show respondents the proposed phasing in of costs (SHOW CARD B) to allow employers to adjust to them

CARD B – Phasing

When the reforms are introduced employers will be able to 'phase' in the contributions. This means that for an initial period they will only be required to make 1% contributions, then 2% for a second period, before moving up to the full 3 %.

This is intended to help employers who don't already make pension contributions to cope with the costs of the reforms by introducing the costs gradually over a period of time.

Phasing will be allowed in three stages – 1%,2% and the 3% on-going contribution.

The time period over which phasing will occur has yet to be decided.

Employee contributions will also be phased in.

- *Phasing will be an option – will phasing in of contributions help you to cope with the costs?*
 - o *If so how?*
 - o *If no why not?*
- *What will be the admin costs of changing the level of contributions?*
 - o *Does this effect their views on how helpful phasing is?*
- *When during the year should the phasing increases occur*
 - o *What if it was April*
 - o *Reasons for choice of month*

6. SCENARIO BUILDING

Purpose: To try and control for the current poor economic climate and the fact that we don't know how the economy will be doing in 2012

Introduce economic scenarios (CARD E)

Note to researcher – Show respondents the possible economic scenarios (show print outs) to allow employers to familiarise themselves with them. Take ONE scenario at a time

- *Try to get a brief picture of how their business is doing now, then work through the scenarios (this may already have been established in section 2)*

For each scenario ask employers to consider if this would the case how would this affect their views about managing the costs of the pension reforms in their own business

- What would they do differently for each scenario
- Will they always provide the minimum contribution regardless of the economic situation or will they contribute more in the good times?
- Scenario One: Continued economic uncertainty

- The economy continues to be characterised by uncertainty
 - Banks are still very reticent to lend money to individuals and small businesses
 - Unemployment is relatively high – 7%
 - Consumer confidence is low, with no end in sight
 - Government has cut public spending
 - The value of the pound continues to be low against other major currencies
 - Inflation and interest rates continue to fall
- Some businesses are doing better than others
 - The financial services industry is hit hardest as markets stagnate
 - Property market is still very slow as prices stagnate and few people are moving
 - The construction industry has only been buoyed by the Olympics
 - Retail sales are patchy – some stores doing better than others
 - A few other big names follow Woolworths into administration
- Your business is doing poorly, just breaking even and in danger of making a loss

- Scenario Two: Beginning of economic recovery

- After 2 years of recession, the economy is starting to grow again
 - Despite increased regulation, financial services organisations are starting to be able to lend money again to individuals and businesses
 - The property market is moving again, with prices overtaking 2007 levels and the number of sales increasing
 - Consumer confidence in the economy is returning – not just in the UK but on a global basis
 - The value of the pound recovers
 - The employment market is more buoyant, as unemployment falls rapidly and there are lots of opportunities for jobseekers
 - Inflation is on target and interest rates begin to increase gradually
- Most businesses are seeing the benefits of the end of the recession
 - Retail sales are very healthy, as consumers reap the benefits of increased disposable income
 - The financial service industry begins to see an upturn as confidence and stability return
- Your business is just ticking over, making very small profits

- Scenario Three: Full economic recovery

- The credit crunch and recession affecting the UK economy in 2008/9 turn out to be less severe than most people initially feared
 - The UK recession officially finishes in mid-2009, as the economy picks up following a dramatic Obama-led recovery in the US
 - The flow of credit improves dramatically, with banks lending to each other, consumers and businesses
 - Property prices recover quickly, as consumers take advantage of the bargains available and lower interest rates
 - There is a partial recovery in the value of the pound, although it does not reach levels reached in 2007
- The mood in the UK is vibrant, boosted by the excitement about the forthcoming Olympics
 - Most industries are now seeing a healthy outlook, with the return of economic stability following a period of uncertainty
- Your own business is doing well and making a profit

7. COMPLIANCE WITH THE 2012 PENSION REFORMS

- What areas of the reforms will they find most easy/ difficult to comply with
- Do they think these reforms will be easier/harder to deal with than previous legislation? Why?
- Anything else?

THANK AND CLOSE

Card C – Administrative time estimates		Small Employer with:				
Phase	Task*	Details	Micro Employer with:	7 Employees (2 opt-out)	20 Employees (5 opt-out)	40 Employees (10 opt-out)
Auto Enrol Jobholders	Retrieve Employee Information for Letter and to provide for Scheme e.g. NINO etc	The employer will need to retrieve their employee records in order to provide information to the employee about auto-enrolment and to provide information to the scheme.	18	28	80	160
	Personalise letter to employee and provide information within 7 or 14 days.	The employer must provide enrolment information to the jobholder. This will be standard material about the specific pension being offered, any choices that the employee has, and general information about the nature of pensions and investments. Guidance and templates will be provided for this letter but employers will need to personalise the details for the specific employee with: <ul style="list-style-type: none"> projections of the value of investments applicable to the jobholder at the age of 65; the date from which the jobholder may realise any investment; That the opt-out period commences on the day after the day on which the agreement is deemed.	12	21	60	120
	Adjust Payroll	The employer must ensure that they pension contributions are deducted from the jobholders pay from their next payment date. i.e. changing automated payroll system, making note of necessary change if a manual system, or informing payroll provider.	3	7	20	40

	Provide Information to Scheme	The employer must provide their chosen pension scheme with the job holder's <ul style="list-style-type: none"> • name • date of birth • automatic enrolment date • details of job holders remuneration • postal/electronic work address • national insurance number • gender 	18	28	80	160
	Employer receives payment details for contributions (once per employer)	The employer receives notification of where and how to pay employer contributions and employee deductions to the scheme.	60	60	60	60
Total A/e			111	144	300	540
Phase	Task*	Details	3 Employees (1 opt-out)	7 Employees (2 opt-out)	20 Employees (5 opt-out)	40 Employees (10 opt-out)
Opt-Out	Employee requests Opt-Out form from the employer	The employer tells the employee to contact the scheme as the opt-out form will be provided by the pension scheme provider. The employer must not provide this on behalf of the scheme.	0	0	0	0
	Employer Receives Opt-out + Forward to Scheme	The employee will give the employer a completed opt out notice. The employer must send on the completed opt out notice to the scheme within 7 days after the day on which the employer receives the notice, retaining a copy.	5	8	20	40
	Give back opt out form to the employee if not correctly completed	Where the opt-out form is not completed and signed or authorised by the jobholder the employer must return the notice to the employee.	0	0	0	0

	Adjust Payroll	The employer must ensure that they pension contributions are deducted from the jobholders pay from their next payment date. i.e. changing automated payroll system, making note of necessary change if a manual system, or informing payroll provider.	21	14	35	70
Total opt-out			26	22	55	110
Refunds	Calculate deduction from day 1	Determine whether the employee has already had a deduction of pension contributions from pay and calculate how much, including any tax implications.	76	42	105	210
	Refund employee	The jobholder must be given all contributions deducted from the jobholder's remuneration via a refund, subject to any tax deductions. <ul style="list-style-type: none"> The refund must be given by no later than 21 days after the day on which the notice is given to the scheme OR the second occasion on which the jobholder receives remuneration from the employer after the notice is given. 	1	2	5	10
	Receive and process refund from scheme	Where a jobholder gives an employer a completed opt-out notice the scheme must, within 21 days after the notice is received, refund any contributions made on behalf or in respect of the jobholder to the employer.	30	60	150	300
Total Refunds			107	108	260	520

* Tasks in this research are a certain sub-set of administrative tasks that DWP have identified as being necessary to implement the 2012 workplace pension reforms.

Card D

Employer A. Publisher and bookshop owner, Cardiff, 5 employees, no pensions scheme at present

Contributions

- 2 employees work on a part-time basis, earning £7,000 per year
 - They are paid £583.33 per month
 - The **employer** pays £5 per month into their pension account
 - Each **employee** has to contribute £6.67 per month
 - Total payment into the pension is £13.33 per month (including tax relief)
- 3 employees work full time, earning £18,000 per year
 - They are paid £1,500 per month
 - The **employer** pays £32.50 per month into their pension account
 - Each **employee** has to contribute £43.33 per month
 - Total payment into the pension is £86.67 per month (including tax relief)
- One of the full-time employees opts out, as they don't believe pensions are worth it
- The employer has to pay a **total of £75 per month** to meet legal requirements

Employer B. Food distribution, Glasgow, 18 employees, non-contributory pension at present

Contributions

- 11 employees earn £17,000 per year
 - They are paid £1,416.67 per month
 - The **employer** pays £30 per month into their pension account
 - Each **employee** has to contribute £40 per month
 - Total payment into the pension is £80 per month (including tax relief)
- 6 employees work full time, earning £28,000 per year
 - They are paid £2,333.33 per month
 - The **employer** pays £57.50 per month into their pension account
 - Each **employee** has to contribute £76.67 per month
 - Total payment into the pension is £153.33 per month (including tax relief)

- One employee earns £45,000 per year
 - They are paid £3,750 per month
 - Empty Stakeholder
 - The **employer** pays £75 per month into their pension account
 - The **employee** has to contribute £100 per month
 - Total payment into the pension is £175 per month (including tax relief)
- All employees join the scheme
- The employer has to pay a **total of £750 per month** to meet legal requirements

Employer C. Creative services support, Leeds, 35 employees, empty Stakeholder scheme at present

Contributions

- 6 employees work as support staff earn £17,000 per year
 - They are paid £1,416.67 per month
 - The **employer** pays £30 per month into their pension account
 - Each **employee** has to contribute £40 per month
 - Total payment into the pension is £80 per month (including tax relief)
- 29 employees work full time as designers, earning £32,000 per year
 - They are paid £2,666.67 per month
 - The **employer** pays £67.50 per month into their pension account
 - Each **employee** has to contribute £90 per month
 - Total payment into the pension is £157.50 per month (including tax relief)
 - They also earn a bonus at Christmas equivalent to one month's pay which adds an extra month's worth of contributions
- Two employees are directors earning £45,000 per year
 - They are paid £3,750 per month
 - The **employer** pays £75 per month into their pension account
 - The **employee** has to contribute £100 per month
 - Total payment into the pension is £175 per month (including tax relief)
- Only 3 employees join the scheme – one of the support staff, one designer and one director
- The employer has to pay a **total of £172.50 per month** to meet legal requirements

Appendix B

Qualitative analysis using Matrix Mapping

Material collected through qualitative methods is invariably rich but unstructured. Much of it is text-based, consisting of verbatim transcriptions of interviews. Moreover, the internal content of the material is usually in detailed and micro form (for example, accounts of experiences and inarticulate explanations). The primary aim of any analytical method is to provide a means of exploring coherence and structure within a cumbersome data set whilst retaining a hold on the original accounts and observations from which it is derived.

The analysis of the in-depth interviews was undertaken using a qualitative content analytic method called Matrix Mapping, which involves a systematic process of sifting, summarising and sorting the material according to key issues and themes.

The first stage of 'Matrix-Mapping' involves familiarisation with the data (in the form of verbatim transcripts) and identification of emerging issues. Based on this preliminary review of the data, as well as the coverage of the topic guide and the researchers' experiences of conducting the fieldwork, a thematic framework is constructed.

The analysis then proceeded by summarising and synthesising the data according to this thematic framework that comprises a series of subject charts displayed in Excel.

Data from each interview and group discussion transcript was summarised and transposed under the appropriate subject heading of the thematic matrix. The context of the information was retained and the page of the transcript from which it came noted, so that it was possible to return to a transcript to explore a point in more detail or to extract text for verbatim quotation. Once the data had been sifted a map was produced which identified the range and nature of views and experiences, sought associations and patterns within them and provided explanations and underpinning factors.

The mapping process is similar regardless of the topic being considered. The analyst reviews the summarised data; compares and contrasts the perceptions, accounts, or experiences; searches for patterns or connections within the data and seeks explanations internally within the data set. Piecing together the overall picture is not simply aggregating patterns, but weighing up the salience and dynamics of issues, and searching for structures within the data that have explanatory power, rather than simply seeking a multiplicity of evidence.

Appendix C

Selected findings from the 2007 quantitative study into employers’ existing pension arrangements and likely their reactions to the 2012 reforms

Table C.1 Employers’ provision of and contribution to pensions, by size of organisation

	Size of organisation				All firms with fewer than 50 employees
	1-4	5-10	11-25	26-49	
	%	%	%	%	%
Contributor	17	22	28	43	20
Non-contributor	9	34	51	39	17
Non-provider	74	43	20	18	63
<i>Unweighted base</i>	<i>573</i>	<i>310</i>	<i>202</i>	<i>118</i>	<i>1,203</i>
<i>Weighted base</i>	<i>1,755</i>	<i>316</i>	<i>207</i>	<i>58</i>	<i>2,336</i>

Base: Private sector employers with fewer than 50 employees.

Table C.2 Main reason for providing a pension, by size of organisation

	Size of organisation				All firms with fewer than 50 employees
	1-4	5-10	11-25	26-49	
	%	%	%	%	
To look after employees in retirement	42	17	19	13	31
It is a legal requirement	16	51	44	57	31
Helps recruit and retain staff	8	6	6	2	7
Employees value pension contributions	5	7	3	1	5
Don't Know	6	1	2	5	4
<i>Unweighted base</i>	<i>150</i>	<i>159</i>	<i>167</i>	<i>107</i>	<i>581</i>
<i>Weighted base</i>	<i>460</i>	<i>179</i>	<i>165</i>	<i>48</i>	<i>853</i>

Base: Providers with fewer than 50 employees.

Table C.3 Main reason for not providing a pension, by size of organisation

	Size of organisation				All firms with fewer than 50 employees
	1-4	5-10	11-25	26-49	
	%	%	%	%	
Organisation is too small	35	17	21	19	33
Too costly	13	17	15	8	13
Staff don't want pensions	10	20	23	20	11
Mainly part-time or temporary staff	5	13	2	-	6
Firm only recently established	4	4	2	4	4
Never thought about it	4	5	3	-	4
A family business	3	1	-	-	3
Don't know	5	5	14	12	5
<i>Unweighted base</i>	<i>423</i>	<i>151</i>	<i>37</i>	<i>11</i>	<i>622</i>
<i>Weighted base</i>	<i>1,295</i>	<i>136</i>	<i>42</i>	<i>11</i>	<i>1,483</i>

Base: Non-providers with fewer than 50 employees.

Table C.4 Administration of payroll, by size of organisation

	Size of organisation				All firms with fewer than 50 employees
	1-4	5-10	11-25	26-49	
	%	%	%	%	
Wholly in-house	54	59	64	61	56
Partially in-house/ partially outsourced	10	13	15	20	11
Wholly outsourced	34	27	21	19	31
Other	1	-	-	-	1
Don't know	1	1	-	-	1
<i>Unweighted base</i>	<i>573</i>	<i>310</i>	<i>202</i>	<i>118</i>	<i>1,203</i>
<i>Weighted base</i>	<i>1,755</i>	<i>316</i>	<i>207</i>	<i>58</i>	<i>2,336</i>

Base: All private sector employers with fewer than 50 employees.

Table C.5 Administration of pension scheme, by size of organisation

	Size of organisation				All firms with fewer than 50 employees
	1-4	5-10	11-25	26-49	
	%	%	%	%	
Wholly in-house	28	27	25	18	27
Partially in-house/ partially outsourced	12	19	26	43	18
Wholly outsourced	55	47	42	32	49
Other	2	-	2	-	1
Don't know	4	8	5	6	5
<i>Unweighted base</i>	<i>121</i>	<i>150</i>	<i>156</i>	<i>103</i>	<i>530</i>
<i>Weighted base</i>	<i>369</i>	<i>174</i>	<i>154</i>	<i>47</i>	<i>744</i>

Base: Private sector employers with fewer than 50 employees providing access to an open pension scheme.

