Research report

Workplace Pension Reforms: Baseline Evaluation Report

Department for Work and Pensions

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Workplace Pension Reforms: Baseline Evaluation Report

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The Authors

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Abbreviations

ASHE	Annual Survey of Hours and Earnings
DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
EPP	Employers' Pension Provision Survey
EQ	Evaluation Question
FRS	Family Resources Survey
FSA	Financial Services Authority
GPP	Group Personal Pension
IA	Impact Assessment
IDBR	Inter-Departmental Business Register
IFA	Independent Financial Advisor
ISA	Individual Savings Account
MI	Management Information
NEST	National Employment Savings Trust
ONS	Office for National Statistics
OPSS	Occupational Pension Schemes Survey
PSO	Public Service Obligation
RDR	Retail Distribution Review
TPR	The Pensions Regulator
WAS	Wealth and Assets Survey

Glossary of terms

Accrual	The build up of a scheme member's pension benefits or rights.
Accrual rate	The rate at which pension benefits or rights are built up.
Accumulation	The stage in peoples lives when they are adding to their pension pot. See also **Decumulation**.
Active member	Individuals currently contributing to a pension scheme.
Administration	Refers to the day-to-day running of a pension scheme, e.g. collection of contributions, payment of benefits, record-keeping.
Automatic enrolment	The government has introduced a new law designed to help people save more for their retirement. This requires all employers to enrol their workers into a workplace pension scheme if they are not already in one. In order to preserve individual responsibility for the decision to save, workers can **opt out** of the scheme.
Annual Management Charge	A charge levied on an investment fund for its management and administration.
Baseline	Refers to evaluation research. The baseline is a marker against which progress can be measured at different points in time.
Basic State Pension	A weekly payment made by the Government to people who have reached State Pension age. It is based on the number of qualifying years that they have earned during their working life, which is based on National Insurance contributions.
Career average	A Defined Benefit (DB) scheme that gives individuals a pension based on salary times the accrual rate in each year of their working life. Entitlements that are built up each year are revalued in line with inflation or earnings.
Certification	A process that employers can use to ensure an existing **money purchase** or **hybrid scheme** qualifies to be used for automatic enrolment and related duties.
Contract based pensions	Pensions where the legal contract is between the individual and the pension provider, usually an insurance company. Contract based pensions are also known as **personal pensions**.
Contributions	The amount (often expressed as a percentage of earnings) that a worker and/or employer pays into a pension.
Counterfactual	Refers to evaluation research. The counterfactual is a view or measure of the world in which the workplace pension reforms, never happened.

Cross-sectional survey	Refers to a survey or study carried out at one point in time with all (i.e. a census) or part (i.e. a representative sample) of a population. Can be repeated but will not necessarily include the same participants, making it distinct from a longitudinal survey.
Decumulation	Opening a pension pot to receive retirement income.
Defined Benefit (DB)	In a DB scheme the amount the member gets at retirement is based on various factors. These could include how long they have been a member of the pension scheme and earnings. Examples of DB schemes include 'final salary' or 'career average' earnings related pensions schemes. In most schemes, some of the pension can be taken as a tax-free lump sum. The rest is then received as regular income, which might be taxable.
Defined Contribution (DC)	In a DC scheme a member's pension pot is put into various investments such as shares (shares are a stake in a company). The amount in the pension pot at retirement is based on how much is paid in and how well the investments have performed. In some schemes, some of the pension can be taken as a tax-free lump sum. The rest can then be used to buy an income, which might be taxable. These are also known as 'money purchase' schemes.
Easement	A reduction in the regulatory burden on employers and/or increasing simplicity to enable employers to comply with the automatic enrolment duties more easily.
Eligible worker	A worker (sometimes referred to as an employee) who is eligible for automatic enrolment. An eligible worker is one who is not already in a qualifying pension scheme, is aged 22 or over, is under State Pension age, earns more than £8,105 a year (this figure may change) and works or usually works in the UK.
Employer awareness	Refers to research with employers. Employers are classed as having awareness of the workplace pension reforms if they have sufficient knowledge to know what the main requirements and implications are for them when prompted, namely: employers will have to automatically enrol UK workers; employers will have to provide a pension scheme for automatic enrolment; and employers will have to contribute to their employees' pensions.
Employer duties	Employers legal obligations under the workplace pension reforms legislation. Compliance with the duties is monitored and enforced by the Pensions Regulator.

Employer size	Employer size is determined by the number of employees. Different categorisations are used throughout this report depending on the context. For the purpose of staging dates, the regulator categorises employer size based on number of employees in PAYE schemes as follows: Micro employers = 1 to 4 employees Small employers = 5 to 49 employees Medium employers = 50 to 249 employees Large employers = 250+ employees For other analysis in the report, different size bands are used; where this is the case it has been indicated in the text accompanying the analysis.
Evaluation Question (EQ)	Research term. The set of questions that will assess the effects of the workplace pension reforms against policy objectives as set out in the Workplace Pension Reforms Evaluation Strategy.
Funded scheme	A scheme in which benefits are met from a fund built up in advance from contributions and investment income. See **unfunded scheme**.
Group Personal Pension	A type of personal pension scheme set up by an employer on behalf of its workers. Although the scheme is arranged by the employer, each pension contract is between the pension provider and the worker. The employer may also pay into the scheme, adding money to each worker's pension pot.
Group Stakeholder Pension	An arrangement made for the employees of a particular employer, or group of employers, to participate in a stakeholder pension on a group basis. This is a collecting arrangement only; the contract is between the individual and the pension provider, normally an insurance company.
Hybrid pension scheme	A pension that offers members either a choice, or mixture, of Defined Benefit and Defined Contribution rights at retirement.
Impact Assessment (IA)	A published assessment of the benefits and costs of a government policy.
Implementation	Refers to the period in which employer duties are being introduced. This will take place between 2012 and 2018 by size of employer (from large to small). See also **staging** and **phasing**.
Industry	Refers to the pensions and wider financial services industry affected by the reforms.
Inter-Departmental Business Register (IDBR)	The sampling frame for surveys of businesses carried out by the ONS and by other government departments.

Levelling down	This is when employers reduce their contributions. Can also refer to other forms of reduction in contributions or benefits that are made in order to meet the new duties on employers. For examples of levelling down strategies see Chapter 4: Box 4.1.
Longitudinal survey	Research term. Refers to a research study or survey where the same participants are repeatedly observed at different points in time. See also panel data.
Management information (MI)	Any data routinely collected by organisations which can be used to inform evaluation.
Money purchase scheme	Type of DC scheme in which individuals buy a retirement income.
National Employment Savings Trust (NEST)	A trust based workplace pension scheme developed to meet the needs of most people. NEST is available to all employers who want to use it and has been designed to complement existing pension provision.
NEST Corporation	Body created to set up and oversee the NEST pension scheme, replacing the Personal Accounts Delivery Authority (PADA).
Occupational pension scheme	Pension scheme organised by an employer (or on behalf of a group of employers) to provide benefits for employees on their retirement and for their dependants on their death. In the private sector, occupational schemes are trust-based. Occupational pension schemes are a type of workplace pension.
Opt in	Right of an individual to join a workplace pension scheme even if they are not eligible for automatic enrolment.
Opt out	Right of an individual to leave a workplace pension scheme after being automatically enrolled.
Panel data	Research term. Data collected from a group of the same research subjects at different points in time. See Longitudinal survey.
Pensim2	An analytical tool used by DWP. Pensim2 is a dynamic micro-simulation model that simulates key events occurring from birth to death using regression based probabilities to enable us to see how an individual's life evolves within a given policy.
Pension	A pension is a way of saving money to provide an individual with an income in retirement.
Pension Acts 2007, 2008 and 2011	Key legislation underpinning the workplace pension reforms. See also Chapter 2: Figure 2.1.
Pension Credit	The main means-tested benefit for pensioners.

Pension fund	A pension fund is usually made up of shares and other financial products. The aim of the fund is to increase the value of the contributions to a pension pot which is more than if the money had been put into other forms of saving or not saved.
Pension pot	Term used for a fund built up by an individual to provide income for retirement. An individual may have multiple pots.
Pension provider	An organisation, usually a bank, building society, insurance or life assurance company, that offers financial products and services relating to retirement income.
Pension scheme	A legal arrangement offering benefits to members.
Pensions Regulator (The)	The regulatory body for workplace pension schemes in the UK, which was created under the Pensions Act 2004.
Persistency	Continuing to pay into a pension or other investment or savings policy that requires regular contributions over a period of time.
Personal pension	This is an arrangement where the pension is set up directly between an individual and a pension provider. The individual pays regular monthly amounts or a lump sum to the pension provider who will invest it on the individual's behalf. The fund is usually run by financial organisations such as building societies, banks, insurance companies or unit trusts. Personal pensions are a form of **DC** pension. See also **Contract based pensions**.
Phasing	The Government has set a minimum amount of money that has to be put into the pension by an employer and in total (i.e. employer and worker's **contribution**). This starts low and increases gradually over a number of years.
Private pension	Private pensions are all pensions that are not state basic retirement or state earnings related. They include occupational and personal pensions, including those for public sector employees.
Protected groups	Groups protected by equality legislation including gender, race, disability and age. Impacts on these groups are covered by the published Impact Assessment for the reforms.

Qualifying scheme	To be a qualifying scheme for automatic enrolment a pension scheme must meet certain minimum requirements, which differ according to the type of pension scheme. DC schemes are based on the contribution rate and require a minimum total contribution based on qualifying earnings, of which a specified amount must come from the employer. The minimum requirements for DB schemes are based on the benefits a jobholder is entitled to under the scheme. Hybrid pension schemes contain elements of DB and DC and, depending on what type of hybrid they are, will have to meet either the same, or a modified version of, the minimum requirements for DB or DC pension schemes or a combination of both.
Registration	All employers with at least one worker will be required to tell the regulator what they have done to comply with their new employer duties. This is known as 'registration' and needs to be done as soon as employers have fulfilled their duties for the first time.
Retail Distribution Review	A review by the FSA aimed at: improving the clarity with which employers describe their services to consumers; addressing the potential for adviser remuneration to distort consumer outcomes; increasing the professional standards of investment advisers. Changes from the review come into effect on 31 December 2012.
Retirement	There is no widely agreed definition of retirement. Generally, it refers to someone who used to be in employment and has withdrawn from the labour market. However, there is no agreement on whether people should only be considered to be retired if their exit from the labour market is permanent, or if they are in receipt of a pension, or other factors.
Staging date	Date when the new automatic enrolment duties apply to an employer for the first time. This process will be 'staged' in gradually, beginning with the largest employers, followed by smaller ones. See also **phasing**.
Stakeholder pension	A type of personal pension arrangement provided by insurance companies. They can be taken out by an individual or facilitated by an employer. Where an employer of five or more staff offers no occupational pension and an employee earns over the Lower Earnings Limit, the provision of access to a stakeholder scheme with contributions deducted from payroll is compulsory.
Standard Industry Classification	Way of classifying businesses and organisations by the type of economic activity in which they are engaged.
State Pension age	The earliest an individual can claim a state pension.

Steady state	Period after which the reforms have been implemented. Steady state should be from 2018. During steady state the reforms should be operating according to the policy intent.
Tax relief	Money that would have gone to the government in the form of tax that goes into an individual's pension pot instead.
Trust based pensions	Pension schemes set up under trust law by one or more employers for the benefit of workers. In a trust-based scheme a board of trustees is set up to run the scheme. Trustees are accountable for making decisions about the way the scheme is run, although they may delegate some of the everyday tasks to a third party. See also **Occupational pension scheme**.
Unbundled pension	A pension in which different fund charges are charged separately.
Unfunded scheme	A DB scheme, usually in the public sector, in which liabilities are not underpinned by a corresponding fund or funds.
Waiting period	The period employers can choose to delay the automatic enrolment date for employees. This can be up to three months. This is sometimes called 'postponement'.
Workplace pensions	This describes any pension scheme that is offered through the workplace, for example occupational pension schemes or a group personal pensions.
Workplace Pension Reforms	The reforms to workplace pensions introduced as part of the Pensions Acts 2007, 2008 and 2011. Includes a duty on employers to automatically enrol all eligible workers into a qualifying workplace pension provision from 2012. See timeline in **Chapter 2: Figure 2.1**.

Summary

Millions of individuals in the UK are not saving enough for their retirement. The Workplace Pension Reforms are a response to some of the key challenges facing the UK pensions system. Once fully implemented, the reforms aim to transform the culture of saving and increase the number of individuals newly saving or saving more in a workplace pension by around eight million, within a range of six to nine million, and increase the amount that is being saved in workplace pensions by around £11 billion a year within a range of £8 billion to £12 billion[1].

This baseline report is the first following the Workplace Pension Reforms Evaluation Strategy[2] and aims to describe the landscape before implementation of the reforms. The report is structured around the eight key Evaluation Questions outlined in the Strategy. Subsequent reports monitoring the effects of the reforms will be published on an annual basis during implementation.

Delivery of the reforms

The policy and legislative framework for the reforms is in place. The new duties on employers to automatically enrol eligible workers into a qualifying pension scheme and make a minimum contribution will be staged in between October 2012 and February 2018, with the largest employers being staged in first. Employer and employee contributions will be phased in, rising to a minimum total contribution of eight per cent of a band of earnings by October 2018, with a minimum contribution of three per cent from employers, in addition to a Government contribution in the form of tax relief.

National Employment Savings Trust (NEST), a new low-cost pension scheme aimed particularly at low to moderate earners and small employers, launched in 2011 with a small number of employers on a voluntary basis to enable a period of live operation before the onset of the employer duties. NEST has a Public Service Obligation to accept all employers that want to use the scheme to fulfil either all or part of their employer duties.

The Pensions Regulator (the regulator) has an Employer Compliance Regime in place to ensure employers comply with their new duties. The regime is based on encouraging a proactive compliance culture amongst employers so that they are aware of and understand their obligations, want to comply with their legal duties and believe that non-compliance by other employers is unacceptable. The regulator will adopt a policy of education, enablement and enforcement in relation to automatic enrolment, will use a proportionate approach to tackling non-compliance and where appropriate use sanctions.

1 Figures shown are in 2012/13 earnings terms. Full details on the costs and benefits to individuals, employers, industry and Government are set out in the Department’s published Impact Assessment, 2012, at: http://dwp.gov.uk/docs/wpr-rev-implementation-ia.pdf

2 *Workplace Pension Reforms Evaluation Strategy*. DWP Research Report No. 764, 2011. At: http://statistics.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_764.asp

Employer awareness[3]

All employers will receive two letters from the regulator: one at 12 months and another at three months ahead of their staging dates[4]. The current levels of awareness and understanding amongst employers show appropriate progression towards employers being able to prepare for automatic enrolment and comply with their duties. The regulator's research shows employer awareness among larger employers is high (88 per cent of large employers and 80 per cent of medium) compared to smaller employers (47 per cent of small and 25 per cent of micro employers), reflecting their later staging dates. Communications activity so far has been focused on large employers who are brought into the reforms first (from October 2012).

Employer awareness of the specific duties to automatically enrol employees and make contributions is high, at 94 per cent and 93 per cent respectively for large employers, 87 per and 84 per cent for medium employers and 64 per cent and 67 per cent for small employers. Awareness of these duties was lowest for micro employers at 38 per cent and 46 per cent.

Overall support for automatic enrolment also varied with employer size, ranging from nearly three-quarters of large employers (74 per cent) agreeing it was a good idea to less than half (44 per cent) of micro employers.

Increasing the number of savers

One of the key policy objectives of the reforms is to increase the number of individuals saving in workplace pensions. Automatic enrolment aims to harness individuals' inertia in thinking about retirement and pension saving, while preserving individual responsibility for the decision to save by allowing them to opt out. Evidence suggests that the requirement for employers to make minimum contributions will be an effective incentive to encourage individuals to remain saving in a pension and not opt out after being automatically enrolled[5].

Current trends in workplace pension participation show a small but steady decline in saving amongst those eligible for automatic enrolment, from a high of 12.6 million (64 per cent) in 2003 down to 11.0 million (56 per cent) in 2011. While public sector pension participation has remained high (5.2 million, 88 per cent in 2011), private sector pension participation has fallen from 7.9 million (55 per cent) in 1997 to 5.8 million (42 per cent) in 2011. Low earners, individuals working for small and micro employers (under 50 employees) and the youngest age groups (aged 22 to 29) have experienced steep declines in participation rates[6].

3 The Pensions Regulator, Tracker Survey, autumn 2011, at: http://www.thepensionsregulator.gov.uk/docs/ecr-employer-tracker-research-2011.pdf
Large (250+ employees), medium (50 to 249 employees), small (five to 49 employees) and micro (one to four employees).

4 The large employers also received an initial letter 18 months ahead of their staging date.

5 Bryan, M. *et al.*, (2011). *Who Saves for Retirement?* Institute for Economic and Social Research (ISER) & Strategic Society Centre. At: http://haec-clients-public.s3.amazonaws.com/ssc/pdf/2011/12/07/Who_Saves_for_Retirement.pdf

6 Department for Work and Pensions (DWP) estimates derived from the Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE, GB).

Female pension participation amongst those eligible for automatic enrolment remains high in the public sector (88 per cent in 2011) but has fallen in the private sector from a high of 55 per cent in 2003 to 39 per cent in 2011 and has been consistently five or six percentage points lower than for male[7]. Pension participation amongst eligible disabled and ethnic group employees has remained relatively stable. Participation of disabled eligible employees has remained fairly constant at 62 per cent in 2009/10 which is slightly higher than the rate for non-disabled individuals (58 per cent). The White ethnic group continues to have the highest pension participation rate, 61 per cent between 2007/08 and 2009/10. While the gap has narrowed slightly, the lowest pension participation is still the Pakistani and Bangladeshi ethnic group at 35 per cent in the same period[8].

Opt out will be a key indicator of the effectiveness of automatic enrolment to get more individuals saving in a workplace pension. Research with individuals prior to implementation provides an indication of potential levels of opt out. While there is obviously a degree of uncertainty at this early stage, it is expected that around two-thirds (65 per cent) of individuals will remain in pension saving. Of those individuals who said they were undecided or would probably or definitely opt out, only one tenth (nine per cent) said they would definitely opt out. More than half (54 per cent) of those who said they would probably or definitely opt out, gave affordability as the reason to opt out[9].

Once individuals are in the habit of saving the aim is to keep them saving persistently. Current trends in persistency show that broadly 75 per cent of eligible employees who are currently saving in a workplace pension are persistent savers. Survival analysis trends show savings persistency is marginally higher in the public sector, reflecting the greater stability of pension provision in that sector[10].

7 DWP estimates derived from the ONS Annual Survey of Hours and Earnings (ASHE, GB).

8 Analysis derived from the DWP Family Resources Survey (FRS, UK). Owing to the volatility of single year results, due to small sample sizes, ethnic group analysis is presented as a three-year average.

9 DWP Individual Attitudes Survey (IAS, GB), 2009 in Individuals' attitudes and likely reactions to the workplace pension reforms 2009.
At: http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep669.pdf

10 DWP estimates derived from the ONS unweighted Longitudinal ASHE, GB. Saving persistently is defined as an eligible employee saving in year one, who saves in three out of a four years period. Survival analysis tracks the participation of a cohort of eligible employees saving in year one, year on year.

Increasing the amount of savings

The second key objective of the reforms is to increase the amount being saved for retirement.

Despite the decline in pension participation[11], trends in total pension saving have remained broadly stable in recent years. In private sector workplace pensions the amount saved per year has fallen, from £39.3 billion in 2007 to £35.0 billion in 2011. However, total pension saving per year in public sector workplace pensions has risen over the same period from £31.9 billion to £35.1 billion (in 2011/12 earning terms)[12].

While there is a small risk that employers may reduce or level down contributions for existing members to manage additional costs, research suggests that over 90 per cent of those who make contributions of three per cent or more would not change their scheme or reduce contribution levels for existing members in response to an increase in total contribution costs. Recent trends support these findings, showing only a marginal increase in employees experiencing some form of levelling down, from eight per cent to 11 per cent from 2005–10 in the private sector[13].

To understand the potential offset of savings in workplace pensions by reductions in other forms of saving the total stock of saving[14] will be monitored. In 2006–08 the total stock of net saving for all eligible employees, including those with negative savings (i.e. debt) was estimated to be £3.6 trillion. Of this, pension saving accounts for £1.7 trillion (almost 50 per cent), net property saving accounts for £1.5 trillion (around 40 per cent) and net financial saving accounts for £0.4 trillion (just over ten per cent)[15].

Understanding the wider context

Impact on employers

The reforms are expected to have a greater impact on private sector employers, where pension provision and participation is much lower than in the public sector. Currently, around a quarter (24 per cent) of private sector organisations offer some form of workplace pension, with provision being significantly higher amongst larger employers. However, only ten per cent provide an open scheme in which the employer makes a contribution[16].

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11 ONS Occupational Pension Scheme Survey, The regulator's Purple Book and DC Trust, 2007–11.

12 DWP estimates derived from the ONS ASHE GB. Figures are in nominal terms and include both funded and unfunded pension contributions. ASHE consistently underestimates employer contributions due to problems associated with respondents' access to this information and because lump sum contributions covering more than one employee are excluded. Estimates should, therefore, be treated with extra caution. ONS does not publish estimates of total savings from ASHE.

13 Levelling down is the reduction of employer contributions for existing members in anticipation or in order to meet the employer duties. DWP Employer Pension Provision Survey (EPP, GB) 2011, DWP estimates derived from the ONS unweighted longitudinal ASHE, GB.

14 DWP (2012). *Supplementary review of research relevant to assessing the impact of Workplace Pension Reforms on household savings*.
At: http://research.dwp.gov.uk/asd/asd5/report_abstracts/ihr_abstracts/ihr_010.asp

15 In UK terms, £1 trillion is equivalent to £1,000 billion. DWP estimates derived from the ONS Wealth and Assets Survey (WAS, GB).

16 Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP.

Overall, the administrative costs to employers as a consequence of the reforms are estimated to be around £480 million in the first year, with ongoing administrative costs of around £150 million per year. The additional contribution costs are estimated to be around £4.0 billion per year, within a range of £2.9 to £4.4 billion (in 2012/13 earnings terms), once minimum contributions have been fully phased in.

The most likely response to the increase in total contributions, indicated by almost half of employers, would be to absorb these costs through a reduction in profits (25 per cent) or as part of other overhead costs (22 per cent). However, around 17 per cent said they would absorb the increase through lower wage increases, 15 per cent through price increases and 12 per cent through workforce re-structure or reduction[17].

For non-members and new employees, just under half (49 per cent) of pension providing employers said that they would use their existing scheme compared with 19 per cent who said they would use NEST. For those employers without a current scheme, almost half (45 per cent) indicated that they would enrol all employees into NEST.

Pensions landscape and charges

There has been a decline in open DB schemes[18]. Between 2007 and 2011 the number of occupational DB schemes has fallen from around 7,500 to 7,000 and the number of DC schemes has fallen from around 52,000 to 45,000 in the same period. The decline in DB schemes is expected to continue, regardless of the new employer pension duties. As well as a decline in employer sponsored workplace pension provision, the number of active non-employer sponsored personal pensions has also declined over time from 7.0 million in 2006/07 to 5.6 million in 2009/10.

Provider research shows that the average annual management charge for trust based and contract based schemes varies by employer size. Charge levels are on average 0.71 per cent for trust based schemes and 0.95 for contract based schemes. However, charges are lower for the largest schemes (1,000+ employees) at 0.48 per cent on average[19].

Long-term impact of the reforms

Counterfactual modelling (a view of the pension landscape if the reforms had never happened) highlights the impact of changes in the economy, labour market and pension participation on the success of the reforms. In particular, it shows that it is not until the late 2030s that there starts to be a noticeable effect on aggregate weekly median private pension incomes as a result of the reforms[20]. Analysis using a combination of high and low assumptions shows that, in particular, fund growth and average earnings growth will have a significant impact on median weekly private pension income.

17 Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP.

18 ONS Occupational Pension Scheme Survey 2010. The Pensions Regulator Purple Book and DC Trust.

19 DWP Pension Landscape and Charges Survey 2011: summary of research findings. Available at http://research.dwp.gov.uk/asd/asd5/summ_index_2011_2012.asp

20 DWP estimates derived from the Pensim2 model, 2020 to 2100.

1 Introduction

Millions of individuals in the UK are not saving enough for their retirement. The Workplace Pension Reforms are a response to some of the key challenges facing the UK pensions system. Demographic changes such as increasing life expectancy, combined with widespread under-saving for retirement, will lead to many individuals not saving enough to deliver the income they want or expect in retirement.

Private pension saving aims to provide individuals with an additional income in retirement over and above the income they will receive from the State via State Pensions and other benefits. The benefits of pension saving to the individual come from moving income from a time when they have more income (working life) to a time when income is relatively lower (retirement). As a result, most individuals will increase their lifetime welfare by shifting income from periods when they are earning to periods, like retirement, when they may not.

The reforms aim to transform the culture of saving in the UK and significantly increase both the number of individuals saving for retirement by eight million (within a range of six to nine million) and the amount that is being saved by around £11 billion per year within a range of £8 billion to £12 billion (2012/13 earning terms)[21]. In the longer term, the aim is to increase pensioner incomes, reduce pensioner poverty and improve living standards for pensioners.

The reforms aim to achieve this by introducing:

- a policy and legislative framework, including new duties on employers to automatically enrol eligible workers[22] into a qualifying pension scheme and make a minimum contribution;
- a proportionate, risk based Employer Compliance Regime that will be delivered by The Pensions Regulator (the regulator) to ensure employers understand and comply with their new obligations; and
- a low-cost pension scheme with a Public Service Obligation (PSO) to accept all employers who choose the scheme to fulfil either all or part of their employer duties. This will be delivered by National Employment Savings Trust (NEST) Corporation and will ensure a suitable savings vehicle is available, particularly for those low to moderate earners and small employers for whom the existing private pensions industry does not offer a suitable product.

1.1 Evaluation

The evaluation of the reforms has been taken forward by a cross Government steering group that includes representatives from across the Department for Work and Pensions (DWP), NEST, the regulator, HM Treasury, the Office for National Statistics (ONS) and the Department for Business, Innovation and Skills. The Department has also shared the evaluation approach with external stakeholders and has worked with them to review the more technical methodologies to identify any enhancements that can be made (see Appendix C).

21 Full details on the costs and benefits to individuals, employers, industry and Government are set out in the Department's published Impact Assessment, 2012, at: http://dwp.gov.uk/docs/wpr-rev-implementation-ia.pdf

22 An eligible worker is one who is not already in a qualifying pension arrangement, is aged 22 or over, is under State Pension age, earns more than £8,105 in 2012/13 (this figure may change) and works or ordinarily works in the UK.

1.1.1 Reporting

This baseline report is the first following on from the Workplace Pension Reforms Evaluation Strategy[23].The baseline aims to describe the landscape before the implementation of the reforms and provide further details on the content of subsequent reports, which will monitor the effects of the reforms on an annual basis during implementation. The report is structured around eight key Evaluation Questions as set out in the Strategy (see Appendix A). The report builds on the Department's commitment to evaluate the reforms and will feed into the 2017 review, outlined in the Pensions Act 2008.

1.1.2 Sources of Information

To ensure the reforms represent value for money for the taxpayer, the reports will draw on a range of information, such as Management Information reports, existing continuous surveys of individuals and employers, panel data, dynamic models and, where appropriate, research commissioned by the Department and the regulator. A list of the main information sources and questions that they will be used to measure is provided in Appendix B. The Department is also working with external stakeholders to identify other relevant sources of information.

1.2 Approach to implementation

1.2.1 Staging in employers

The duty on employers to automatically enrol eligible workers into a qualifying workplace pension scheme will be staged in between October 2012 and February 2018, starting with the largest employers[24].

All employers will receive two letters from the regulator: one at 12 months ahead of their staging dates and another at three months[25]. The letters will tell them when their staging date is and what they must do to comply with their new duties. The regulator has published guidance to help employers understand their duties and will produce additional guidance in the future[26].

The largest employers due to be staged in from October and November 2012, are able to automatically enrol eligible workers from July, August and September 2012, if they wish to do so. Similarly, all employers due to be staged in from January 2013 onwards can bring their staging date forward to as early as October 2012. New employers coming into being after April 2012 will be staged from May 2017.

1.2.2 Phasing in contributions

Employer and employee contributions will be phased in from October 2012 to a minimum total contribution of eight per cent of qualifying earnings by October 2018. The minimum employer contribution will initially be one per cent. This will rise to a minimum employer contribution of two per cent in October 2017 and to a minimum of three per cent by October 2018.

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23 *Workplace Pension Reforms Evaluation Strategy*. DWP Research Report No. 764, (2011). At: http://statistics.dwp.gov.uk/asd/asd5/rports2011-2012/rrep764.pdf

24 See the regulators staging date timeline. At: http://www.thepensionsregulator.gov.uk/pensions-reform/staging-date-timeline.aspx

25 Large employers (250+ employees) also received an initial letter 18 months ahead of their staging date.

26 At: http://www.thepensionsregulator.gov.uk/detailed-guidance.aspx#s4222

1.3 Report structure

The report is structured around the following key themes:

Delivery of reforms (Chapter 2)

This chapter covers the establishment of the policy and legislative framework for the reforms, NEST and the Employer Compliance Regime. It also includes a baseline for assessing employer awareness and understanding of their duties.

Increasing the number of savers (Chapter 3)

This chapter provides a baseline for assessing whether the reforms achieve the policy objective of increasing the number of individuals saving. It includes current trends in saving, persistency of saving and indicative findings on opt out. It also looks at the effectiveness of communications and information for individuals about the benefits of saving and how the reforms affect them.

Increasing the amount of savings (Chapter 4)

This chapter provides a baseline for assessing whether the reforms achieve the policy objective of increasing the amount saved for retirement. This chapter includes recent trends in the amount saved, including the level of contributions made by employers, levelling down and the composition of total household saving. Future reports will monitor progress against the longer term objective to reduce pensioner poverty and improve living standards for pensioners.

Understanding wider context (Chapter 5)

This chapter explores the wider context and the constraints under which the outcomes of the reforms are achieved. It includes indicative findings on the potential costs of the reforms for employers, employer decisions on scheme choice and contribution levels and how they are responding to the regulatory burden. It also examines the reaction of the pensions industry to the reforms and the impact on the pension landscape in terms of the number and type of schemes, membership, contribution levels and charge structures. Finally, it considers the wider economic impacts of the reforms.

Long-term impact of the reforms (Chapter 6)

This chapter models the impact of the reforms by comparing the world with the reforms to a world in which the reforms did not happen (referred to as the ‘counterfactual’). Analysis in this chapter will be from Pensim2, the Department’s dynamic micro-simulation model that simulates key events in individuals’ lives using regression based probabilities.

2 Delivery of the reforms

Summary

- The policy and legislative framework needed for the delivery of the Workplace Pension Reforms is in place. The duties on employers will be implemented between October 2012 and October 2018 with the largest employers staged in first.
- National Employment Savings Trust (NEST), a new low-cost pension scheme aimed particularly at low to moderate earners and small employers, was launched in 2011 with a small number of employers on a voluntary basis to enable a period of live operation before the onset of the employer duty.
- The Pensions Regulator (the regulator) has put in place an Employer Compliance Regime to ensure employers meet their new duties. The regulator has also been engaged in activity to raise employer awareness and understanding of the reforms. Their view, based on their employer research in autumn 2011, is that appropriate progress has been made towards employer readiness for the reforms.
- This employer research showed that a third (33 per cent) of all employers are aware of the reforms and that awareness was much higher (88 per cent) among large employers (250+ employees) who will be staged in first.
- Awareness of the need to automatically enrol employees and make contributions was high, ranging from 94 per cent and 93 per cent respectively for large employers, 87 per cent and 84 per cent for medium employers (50 to 249 employees) and 64 per cent and 67 per cent for small employers (five to 49 employees). Awareness of these specific duties was lower for micro employers (one to four employees) at 38 per cent and 46 per cent.
- Across all employer size bands, awareness of the need to register with the regulator was the lowest of the specific duties, ranging from seven in ten (68 per cent) of large employers to two in ten (20 per cent) of small employers.
- Support for automatic enrolment among all employers stood at 50 per cent with the highest levels among large employers (74 per cent). This also decreased by employer size with 44 per cent of micro employers expressing support.

2.1 Introduction

A programme of activity bringing together the Department and its partner bodies, NEST Corporation and the regulator, was set up to deliver the reforms. This chapter sets out what has happened to deliver the reforms so far. It covers the following three evaluation questions from the published Evaluation Strategy:

> Were the Workplace Pension Reforms delivered to the planned timescales? (EQ1)
>
> Does NEST accept all employers who choose the scheme, while offering low costs to members and remaining financially viable? (EQ2)
>
> Do employers know about, understand and comply with their employer duties? (EQ3)

2.2 Policy and legislative framework

The policy and legislative framework is complete. It has been delivered through the provisions in the Pensions Acts 2007, 2008 and 2011 and subsequent Regulations.

The duty on employers to automatically enrol eligible workers into a qualifying pension scheme and make a minimum contribution will be implemented between October 2012 and October 2018, starting with the largest employers[27]. This approach is intended to help manage the risk associated with the scale of administrative challenge inherent in delivering a reform of this size and to ease the costs and burdens on employers.

In the run up to October 2012, the Department has been working with NEST Corporation and the regulator to ensure that everything is in place for the employer duty to commence as planned. Figure 2.1 summarises the delivery timetable:

27 Employers due to be staged in from October and November 2012 will be able to automatically enrol eligible workers from July, August and September 2012, if they wish to do so.

Figure 2.1 Workplace Pension Reforms timetable[28]

November 2008
Pensions Bill 2008 achieved Royal Assent

January 2009
PADA and the Pensions Regulator: beginning of procurement process

March 2009
Consultation on first batch of regulations

September 2009
Consultation on second batch of regulations

July 2010
NEST Corporation launched

September 2010
Independent 'Making Automatic Enrolment Work' Review published

January 2011
Pensions Bill 2011 introduced in the House of Lords

2011
Consultation on secondary legislation package

2011
Progressive launch of NEST scheme with voluntary employers

2012
Launch of employer duties, NEST's Public Service Obligation and the regulator's Employer Compliance Regime

October 2012
Start of staging

October 2012
Start of phasing of minimum contributions

February 2018
End of staging

October 2018
End of phasing of minimum contributions

28 The Pensions Act 2007 created Personal Accounts Delivery Authority (PADA) to establish the infrastructure for a new low-cost pension scheme. In January 2010 PADA announced the creation of NEST Corporation to continue this work. NEST Corporation came into being in July 2010, replacing PADA.

2.3 NEST – National Employment Savings Trust

NEST is a new low-cost pension scheme delivered by NEST Corporation and will ensure a suitable savings vehicle, particularly for those low to moderate earners and small employers for whom the existing private pensions industry does not offer a suitable product. NEST uses an outsource delivery model with all the main commercial contracts now in place.

2.3.1 Public Service Obligation

NEST has a Public Service Obligation (PSO) to accept all employers that want to use the scheme to fulfil either all or part of their employer duties. NEST's PSO also requires that it will not charge members at different levels based on the size of their employer or type of work[29].

NEST Corporation launched NEST on a small scale and on a voluntary basis in 2011 to enable a period of live operation before the onset of the employer duty. This was intended to manage the risk associated with the scale of administrative challenge inherent in delivering a new pension scheme. Future reports will monitor the extent to which NEST fulfils its PSO and its capacity to cope with the volume of employers who use it.

2.3.2 Financing of NEST

NEST is funded by a loan from the Department which pays for the scheme to be set up and contributes to the running costs of the scheme in the early years, while the membership is growing. The longer term aim is for NEST to have sufficient membership to be self-financing while maintaining low charges for its members. The current charges are made up of an annual management charge of 0.3 per cent funds under management plus 1.8 per cent of contributions.

Future reports will monitor whether NEST maintains low costs to members while meeting the requirements of its funding arrangements. In addition, scheme forecasts agreed by the Department will be used to assess when NEST is expected to be self-financing. Due to the commercially sensitive nature of this information, it will not be published in detail. However, if NEST were materially breaching the terms of the loan agreement, this would be disclosed in their Annual Report and Accounts.

2.4 Employer Compliance Regime

The regulator will be responsible for delivering an Employer Compliance Regime to ensure employers comply with their duties, including the duty to automatically enrol eligible workers into a qualifying pension arrangement and make a minimum contribution.

The regulator has contracted out the high-volume employer communications and transactional process services required to support the regime. Commercial contracts are in place to commence the regime function in line with duties, which includes any employers who choose to bring forward their duty date[30].

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29 NEST. *Order and rules summary – A guide to help you understand the small print*. At: http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-order-and-rules-summary,PDF.pdf

30 Employers due to be staged in from October and November 2012 will be able to automatically enrol eligible workers from July, August and September 2012, if they wish to do so.

2.4.1 Regulator's approach to delivering the Employer Compliance Regime

The regulator's compliance approach is based on encouraging a proactive compliance culture amongst employers, so that they are aware of and understand their obligations, want to comply with their legal duties and advocate that non-compliance by other employers is not acceptable. The regulator's approach for achieving this is summarised in Box 2.1. Further details of the regulator's Compliance and Enforcement strategy and policy can be found on the regulator's website[31]:

Box 2.1 – The regulator's compliance approach

- Establish and maintain a 'pro compliance culture' amongst employers so that they are aware of and understand their obligations, want to comply with their legal duties and advocate that non-compliance by other employers is not acceptable.
- Maximise deterrence for those who are considering committing a breach.
- Prevent non-compliance by ensuring effective controls are in place.
- Swiftly detect non-compliance by putting in place effective systems for reporting concerns, registration and intelligence analysis.
- Investigate breaches in a fair, objective and professional manner.
- Effectively enforce against non-compliance.

The regulator's approach is based on the understanding that some employers may struggle to be compliant and will work with employers to help them to become compliant while ensuring employees are not disadvantaged. However, intentional and persistent non-compliance will be treated as unacceptable and the regulator will use the powers it has been given to take enforcement action where it is appropriate to do so.

2.4.2 Communicating the reforms to employers

The regulator began its communications campaign to raise employer awareness about the duties in 2011. The campaign provided guidance through letters, meetings and events to targeted key audiences, which included employers, trustees, accountants, independent financial advisers, payroll and business software providers, and human resource professionals. The Department is supporting engagement with employers through an employer communication campaign, which includes materials such as letter templates to help employers communicate with their employees.

In addition to the communication campaign, the regulator has held meetings with over 400 of the largest employers (6,000+ employees) and has written to over 4,700 of the large employers (250+ employees), employing about two-thirds of the UK workforce (around 19 million employees), 18 months ahead of their staging date[32]. All employers will receive a letter 12 months ahead of their staging date and a final reminder at three months[33].

31 Further details of the strategy and policy can be found at: http://www.thepensionsregulator.gov.uk/docs/pensions-reform-compliance-and-enforcement-policy.pdf

32 As of 31 April 2012.

33 Large employers (250+ employees) also received an initial letter 18 months ahead of their staging date.

The regulator has published detailed guidance[34] covering all aspects of legislation aimed at large employers with experience of providing pensions, providers, advisers and intermediaries. In addition it has provided online interactive tools designed specifically to help those who may have a more limited understanding of the reforms, typically smaller employers.

2.5 Employer attitudes and awareness

2.5.1 Overall employer awareness and understanding in 2011

In order to be able to comply with their duties, employers need to be aware of and understand how to discharge them. A key stage at which to assess awareness will be three months before an employer's staging date. Just prior to this period, employers will have been sent a final letter reminding them about their duties, so this will act as a check for the regulator that employers have understood what is required of them.

Research conducted three months before the staging dates does not yet exist, so the regulator's spring and autumn 2011 employer trackers[35] will be used as a baseline to monitor employer awareness and understanding of the new duty. Based on the tracker findings, the level of awareness and understanding among large employers is now high and shows appropriate progression towards these employers being able to prepare for automatic enrolment and comply with their duties. Unsurprisingly, awareness of the duties is lower amongst medium, small and micro employers.

Figure 2.2 shows the level of awareness by employer size. Overall, a third of all employers (33 per cent) were aware of the reforms. This result reflects the high number of small and micro employers who will be brought into the reforms later (from June 2015 at the earliest) and who will not yet have received direct communications from the regulator. When the results are looked at across employer size, awareness of the reforms ranged from 88 per cent among large employers to 25 per cent for micro employers. The results were broadly consistent with the position in spring 2011 and in the regulator's view, the levels of awareness showed appropriate progression towards employer readiness for the reforms.

Among all employers, the media (32 per cent) was mentioned most often as the source of awareness of the changes. Seven per cent mentioned professional advisors, with large and medium employers most likely to mention these (36 per cent and 29 per cent respectively).

Overall, one tenth (ten per cent) of all employers understood how to discharge their duties. This varied by size, with just under three-fifths (57 per cent) of large employers saying they understood how to discharge their duties. This fell to 45 per cent for medium size employers and fell much lower for small and micro employers, at 18 per cent and six per cent respectively.

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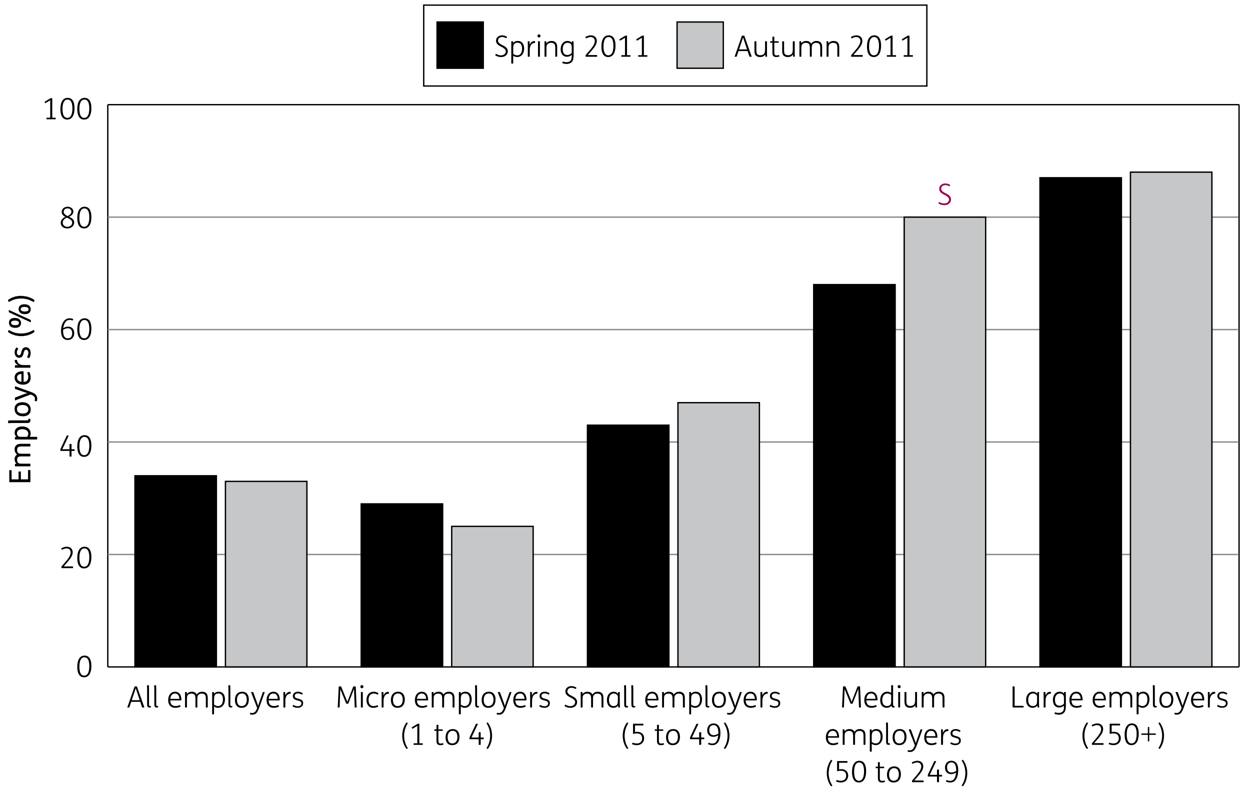
34 See the regulator at: http://www.thepensionsregulator.gov.uk/detailed-guidance.aspx#s4222

35 Coleman. L, (2011). *Employers' awareness, understanding and activity relating to workplace pension reforms*. At:
http://www.thepensionsregulator.gov.uk/docs/ecr-tracker-research-report.pdf
http://www.thepensionsregulator.gov.uk/docs/ecr-employer-tracker-research-2011.pdf
Further information from the Tracker Survey will be available in a forthcoming report in July 2012. At: http://www.thepensionsregulator.gov.uk/index.aspx

Figure 2.2 Awareness of the workplace pension reforms by employer size



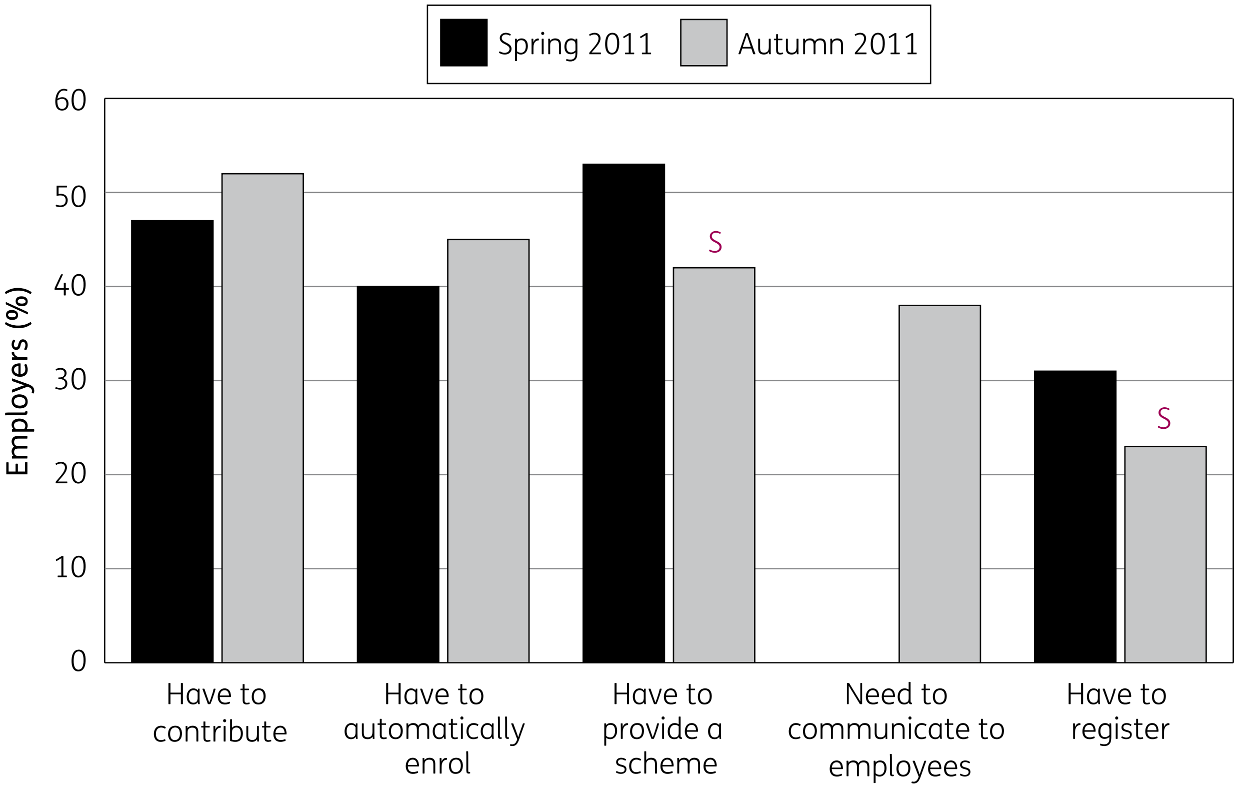
Source: The Pensions Regulator, Tracker Survey, spring 2011 and autumn 2011.
Notes:
1 'S' denotes a statistically significant difference over time between spring 2011 and autumn 2011 at 95 per cent confidence level.
2 Unweighted base sizes. Spring 2011: 751 employers, autumn 2011: 614 employers.

2.5.2 Employer awareness and understanding of specific features in 2011

Figure 2.3 shows the level of awareness of each of the specific features of the reforms. Around a half (52 per cent) of all employers were aware that employers will have to contribute to their workers' pension and close to half (45 per cent) were aware that employers will have to automatically enrol UK workers. Two-fifths (42 per cent) of all employers were aware that employers will have to provide a pension scheme for automatic enrolment.

Awareness of the need for employers to register with the regulator stood at almost a quarter (23 per cent). Close to two fifths (38 per cent) of all employers were aware that employers will need to communicate to UK workers on an individual basis.

Figure 2.3 Awareness of the specific features of the workplace pension reforms among all employers



Source: The Pensions Regulator, Tracker Survey, spring 2011 and autumn 2011.
Notes:
1 'S' denotes a statistically significant difference over time between spring 2011 and autumn 2011 at 95 per cent confidence level.
2 Questionnaire wording for 'Have to provide a scheme' changed between spring 2011 and autumn 2011. Higher level of agreement in the spring survey may be explained by employers referring to provision of a stakeholder pension, as the question does not specify schemes for automatic enrolment.
3 'Need to communicate to employees' was not asked in spring 2011 survey.
4 Unweighted base sizes. Spring 2011: 751 employers, autumn 2011: 614 employers.

As with general awareness levels, awareness of specific requirements varied with employer size. Among large employers levels of awareness were high in relation to the need to automatically enrol (94 per cent), the need to contribute (93 per cent), having to provide a scheme (91 per cent) and the need to communicate with workers on an individual basis (83 per cent).

Around nine-tenths (87 per cent) of medium employers were aware that employers have to automatically enrol UK workers, an increase between spring and autumn 2011. This was mirrored among small employers, where two-thirds (64 per cent) were aware, but lower for micro employers, where 38 per cent were aware.

Among micro and small employers awareness was highest in relation to employers having to contribute (46 per cent and 67 per cent respectively). Awareness of the need to provide a scheme for automatic enrolment has however declined between spring and autumn 2011 among both of these groups (35 per cent and 60 per cent respectively).

Across all employer size bands awareness of the need to register with the regulator was lowest of the five features of automatic enrolment. Nevertheless, almost seven in ten (68 per cent) large employers were aware of the need to register, while only a fifth (20 per cent) of micros were aware.

2.5.3 Employer awareness of enforcement powers

The regulator has at its disposal enforcement powers in order to ensure that employers comply with their automatic enrolment duties. These are intended to act as a deterrent and to provide a mechanism to address non-compliance if it occurs.

The autumn 2011 employer tracker[36] showed employer awareness of enforcement powers were consistent across all employer sizes, with about two-thirds (60 per cent) of all employers believing that enforcement action would take the form of a fixed penalty, while three in ten (29 per cent) did not know. Other responses (by ten per cent or less of employers) related to a mention of general 'prosecution', 'warning letter' or 'other'. Employers' responses were broadly consistent with the powers that the regulator has at its disposal, which include compliance notices, unpaid contributions notices, other statutory notices, fixed penalties and escalating penalties.

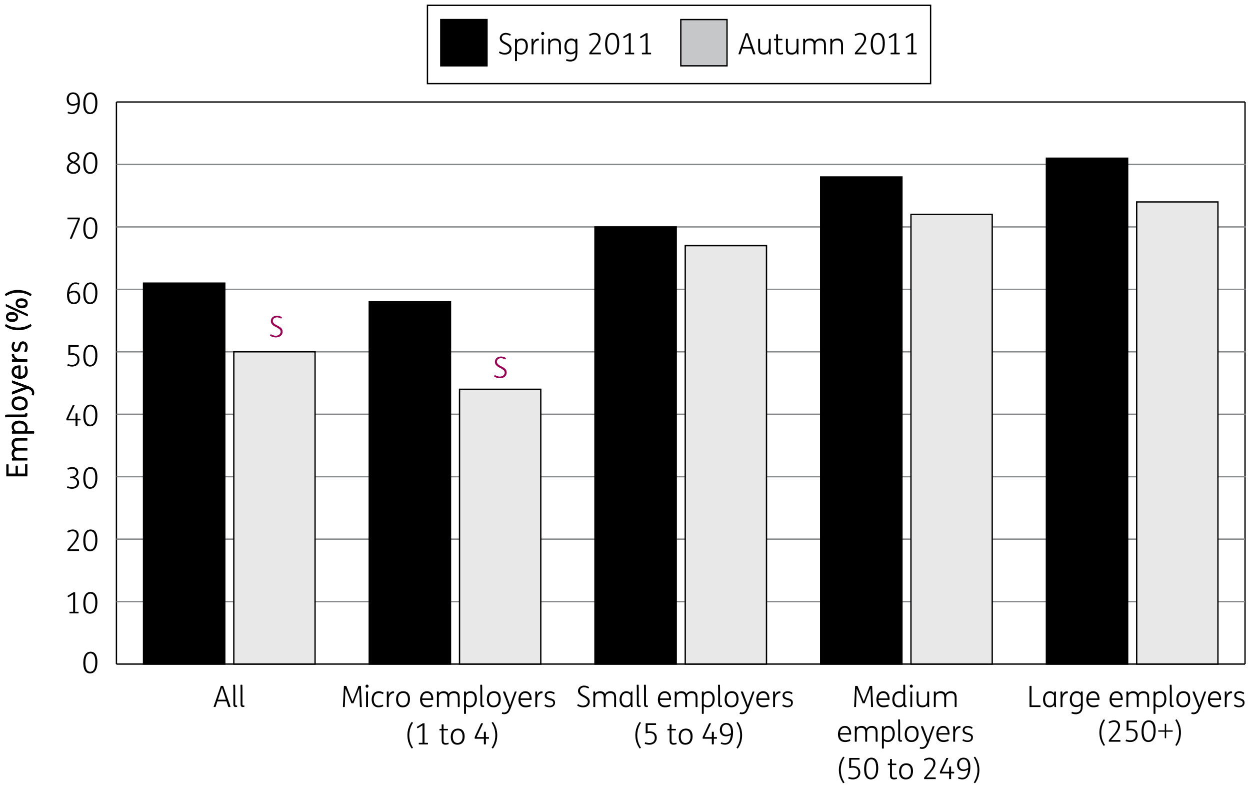
2.5.4 Employer attitudes

The regulator defines an employer's attitude as whether an employer supports the reforms or not by asking if they think the reforms are good or bad, or whether they are indifferent (i.e. have no view on whether reforms are good or bad). The regulator's view is that an employer's attitude to a specific law is likely to influence their willingness to comply and impact their ability and likelihood to comply.

Figure 2.4 shows that half (50 per cent) of all employers agreed that the introduction of automatic enrolment is a good idea. Support was highest among larger employers, with three-quarters agreeing that automatic enrolment is a good idea (74 per cent of large and 72 per cent of medium employers). Support for automatic enrolment decreased with employer size, with two-thirds (67 per cent) of small employers and less than half (44 per cent) of micro employers agreeing that automatic enrolment is a good idea.

36 Coleman. L, (2011). *Employers' awareness, understanding and activity relating to workplace pension reforms*. At:
http://www.thepensionsregulator.gov.uk/docs/ecr-tracker-research-report.pdf
http://www.thepensionsregulator.gov.uk/docs/ecr-employer-tracker-research-2011.pdf
Further information from the Tracker Survey will be available in a forthcoming report in July 2012. At: http://www.thepensionsregulator.gov.uk/index.aspx

Figure 2.4 Level of support for the workplace pension reforms by employer size



Source: The Pensions Regulator, Tracker Survey, spring 2011 and autumn 2011.
Notes:
1 'S' denotes a statistically significant difference over time between spring 2011 and autumn 2011 at 95 per cent confidence level.
2 Unweighted base sizes. Spring 2011: 751 employers, autumn 2011: 614 employers.

3 Increasing the number of savers

Summary

- Trends in pension participation by eligible employees shows a small but steady decline from a high of 12.6 million (64 per cent) in 2003 to 11.0 million (56 per cent) in 2011. While public sector pension participation remains high (5.2 million, 88 per cent in 2011), private sector pension participation has fallen from 7.9 million (55 per cent) in 2003 to 5.8 million (42 per cent) in 2011.
- Steep declines in participation between 1997 and 2011 have occurred in: the low earners group (earning between £10,000 and £20,000 per year) for whom participation has decreased from 48 per cent to 37 per cent; individuals working for micro employers (one to four employees) for whom participation has decreased from 33 per cent to ten per cent; and the youngest age group (22 to 29 years olds) whose participation fell from 51 per cent to 36 per cent.
- Female pension participation in the private sector is consistently five to six percentage points lower than male. However, overall participation is higher, due to the greater proportion of women in the public sector.
- Pension participation amongst disabled eligible employees has remained fairly constant at 62 per cent in 2009/10, which is slightly higher than the pension participation for non-disabled eligible employees (58 per cent). The White ethnic group continues to have the highest pension participation, 61 per cent in 2007/08 to 2009/10. While the gap has narrowed slightly, the lowest participation is the Pakistani and Bangladeshi ethnic group at 35 per cent.
- Eligible employees who are currently saving persistently (three out of the four years) has remained broadly stable, at 75 per cent from 1997 to 2011. Survival analysis trends show savings persistency is marginally higher in the public sector, reflecting the greater stability of pension provision in that sector.
- While a degree of uncertainty remains at this stage, it is expected that around two-thirds (65 per cent) of individuals will remain in pension saving. Of those individuals who said they would probably or definitely opt out, over half (54 per cent) gave affordability as the reason.
- Around six in ten (61 per cent) of individuals agreed that they would always save in a workplace pension if one was available, with employer contributions as the most common perceived benefit mentioned by over half (54 per cent) of individuals.

3.1 Introduction

To meet the long-term objectives of the reforms to increase pensioner incomes, reduce pensioner poverty and improve living standards for pensioners, it will be necessary to meet two intermediate objectives. These are to increase the number of individuals saving, particularly amongst low to moderate earners, and to increase the amount that individuals save.

The first of these two intermediate objectives is covered by the following evaluation question from the published Evaluation Strategy[37]. Chapter 4 deals with the second intermediate objective to increase the amount saved:

To what extent do the Workplace Pension Reforms increase the number of individuals saving in workplace pensions? (EQ4)

3.1.1 Automatic enrolment and contributions

The overall level of private pension participation is low and falling. Automatic enrolment aims to transform the long-term savings culture of the UK by harnessing individuals' inertia in thinking about retirement and pension saving. Evidence from both UK and international research shows that automatic enrolment is an effective means of achieving high workplace pension scheme take up[38].

In addition, the duty on employers to make contributions into their employee's pensions will create an incentive for individuals to remain enrolled in a workplace pension scheme and not opt out. Evidence from the Wealth and Assets Survey (WAS) shows employer contributions increase participation in workplace pensions by 71 percentage points and is the main factor affecting participation[39]. These findings are supported by the Department for Work and Pensions (DWP) Communication Tracker.

The benefits of the reforms extend to a large section of the population who work for employers that do not currently offer pension benefits. DWP estimates that the reforms will increase the number of individuals newly saving or saving more in a workplace pension by around eight million (within a range of six to nine million) by the end of the staging in of the reforms, with two to four million saving in National Employment Savings Trust (NEST).

3.2 Trends in workplace pension participation

The following analysis uses both the Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE) and the DWP Family Resources Survey (FRS, UK) to provide a baseline upon which to observe and monitor the shift in workplace pension participation brought about by the reforms (see Appendix B for details on the surveys). To enable us to compare outcomes amongst a range of different groups analysis has been presented by economic status, sector, gender, disability, ethnicity, earnings, employer size, age and industry[40].

37 *Workplace Pension Reforms Evaluation Strategy*, DWP Research Report No. 764, 2011. At: http://statistics.dwp.gov.uk/asd/asd5/report_abstracts/rr_abstracts/rra_764.asp

38 '*Making Automatic Enrolment Work*' review, 2010. At: http://www.dwp.gov.uk/docs/cp-oct10-full-document.pdf

39 Bryan, M, *et al.*, (2011). *Who Saves for Retirement?*. Institute for Economic and Social Research (ISER) & Strategic Society Centre. At: http://haec-clients-public.s3.amazonaws.com/ssc/pdf/2011/12/07/Who_Saves_for_Retirement.pdf
DWP (2011) *Pensions Portfolio: Communications tracking research*, October 2011. At: http://www.dwp.gov.uk/docs/comm-res-pll-trackers7-0312.pdf

40 Future reports will look to compare outcomes amongst other groups such as agency workers who can be identified from the 2012/13 FRS onwards.

3.2.1 Number of savers

Since 2003, there has been a decline in the number of eligible employees[41] participating in a workplace pension from 12.6 million (64 per cent) to 11.0 million (56 per cent) in 2011. While public sector pension participation remains high, 5.2 million (88 per cent) in 2011, private sector pension participation has fallen from 7.9 million (55 per cent) in 2003 to 5.8 million (42 per cent) in 2011[42].

3.2.2 Economic status

Figure 3.1 shows recent trends in participation for eligible employees, compared to other economic status groups. The steady decline in eligible employee pension participation is shown, from 64 per cent to 59 per cent from 2003/04 to 2009/10. There has also been a sharp fall in the participation of the self-employed, from 35 per cent to 21 per cent. The low uptake by the self-employed reflects the fact that the majority of pension participation is facilitated by the employer[43]. The increase in the participation rate of employees in the 'not eligible' group from 16 per cent to 19 per cent in 2006/07 is due to changes in the pension questions on the Wealth and Assets Survey.

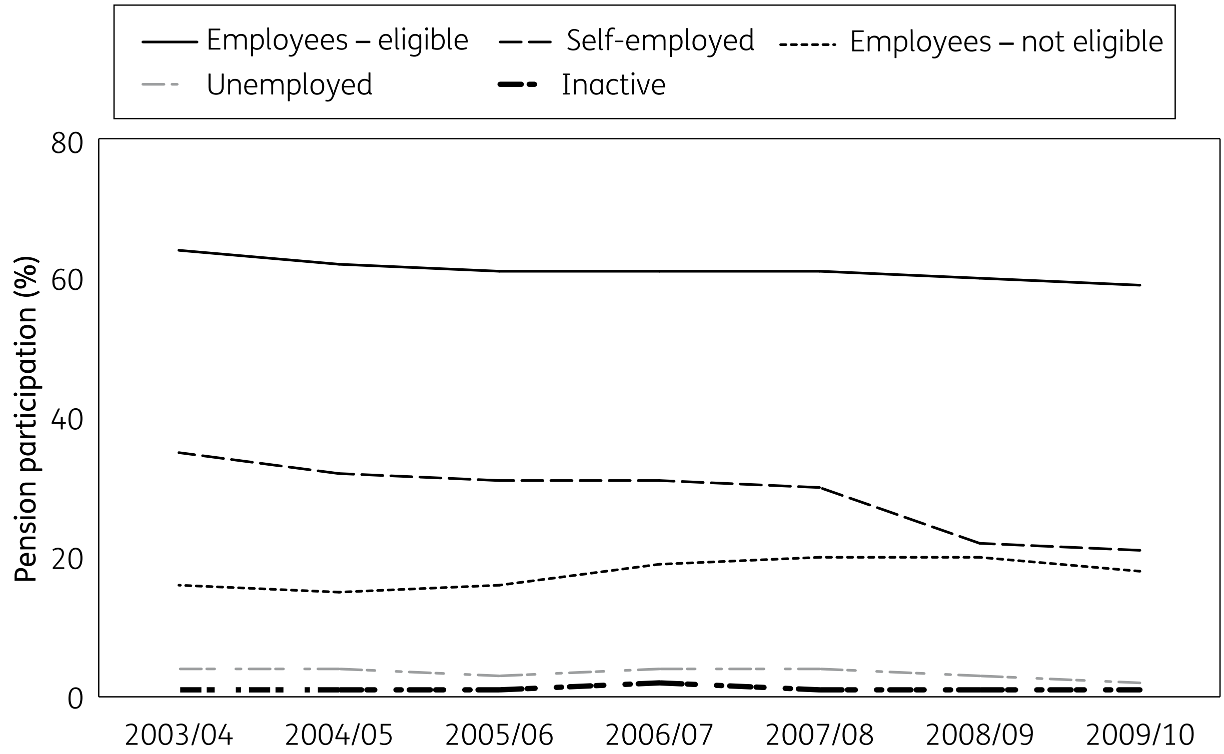
Future reports will monitor participation across all groups as awareness of the benefits of pension saving amongst the not eligible group may increase, as a result of the reforms. In turn, the reforms will facilitate savings amongst these groups. For example, some non-eligible employees can opt in to a workplace pension and NEST will ensure a suitable savings vehicle for the self-employed.

41 An eligible employee (sometimes referred to as eligible worker) is one who is not already in a qualifying pension arrangement, is aged 22 or over, is under State Pension age, earns more than £8,105 a year in 2012/13 (this figure may change) and works or usually works in the UK.

42 DWP estimates derived from the ONS Annual Survey of Hours and Earnings, ASHE, GB. See Appendix B for further details.

43 ONS Wealth and Assets Survey (WAS), GB, 2006–08.

Figure 3.1 Participation in all pensions, by economic status

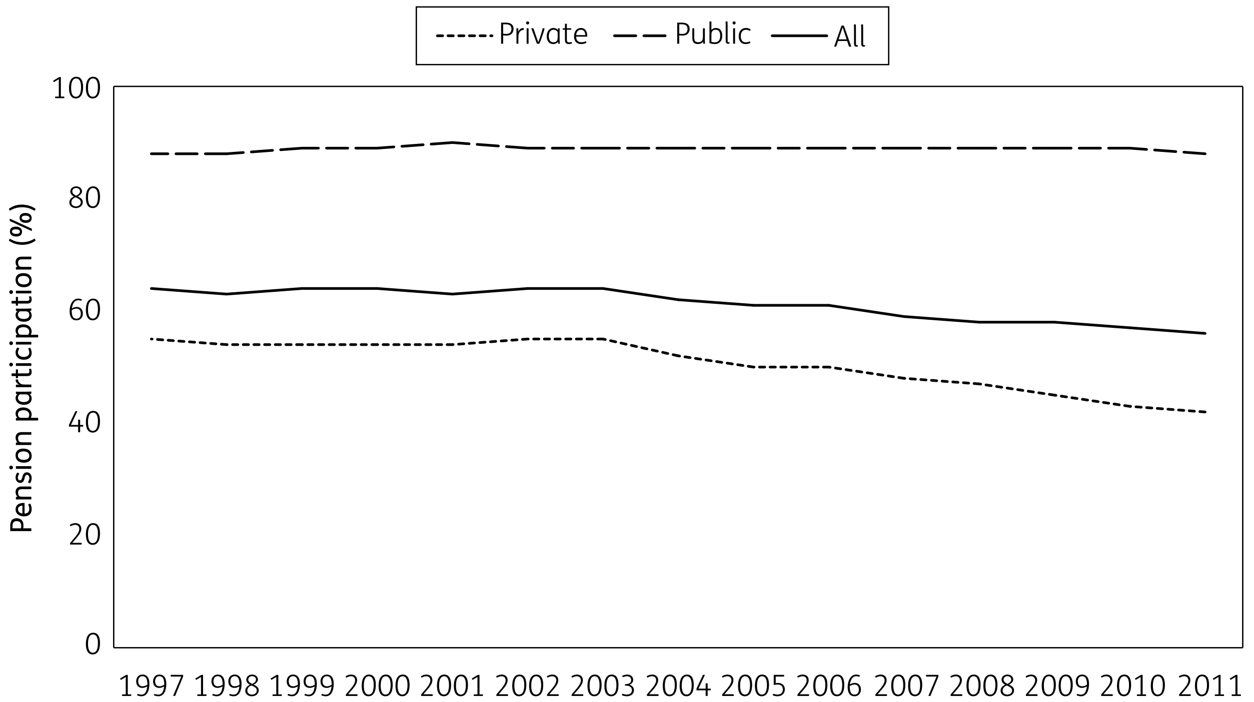


Source: Modelled analysis derived from the DWP FRS, UK, 2003/04 to 2009/10.
Note: Prior to 2006/07 pension questions where only asked of individuals under State Pension age (females aged 60 and males aged 65).

3.2.3 Sector

The distinction between public and private sector is important since provision and participation is much higher in the public sector. Figure 3.2 shows recent trends in workplace pension participation for eligible employees by sector. Overall pension participation rate has fallen from 64 per cent to 56 per cent. This is mainly due to the fall in participation within the private sector from 55 per cent in 1997 to 42 per cent in 2011 with participation in the public sector estimated at 88 per cent in 2011, as it was in 1997.

Figure 3.2 Eligible employees participating in workplace pensions by sector



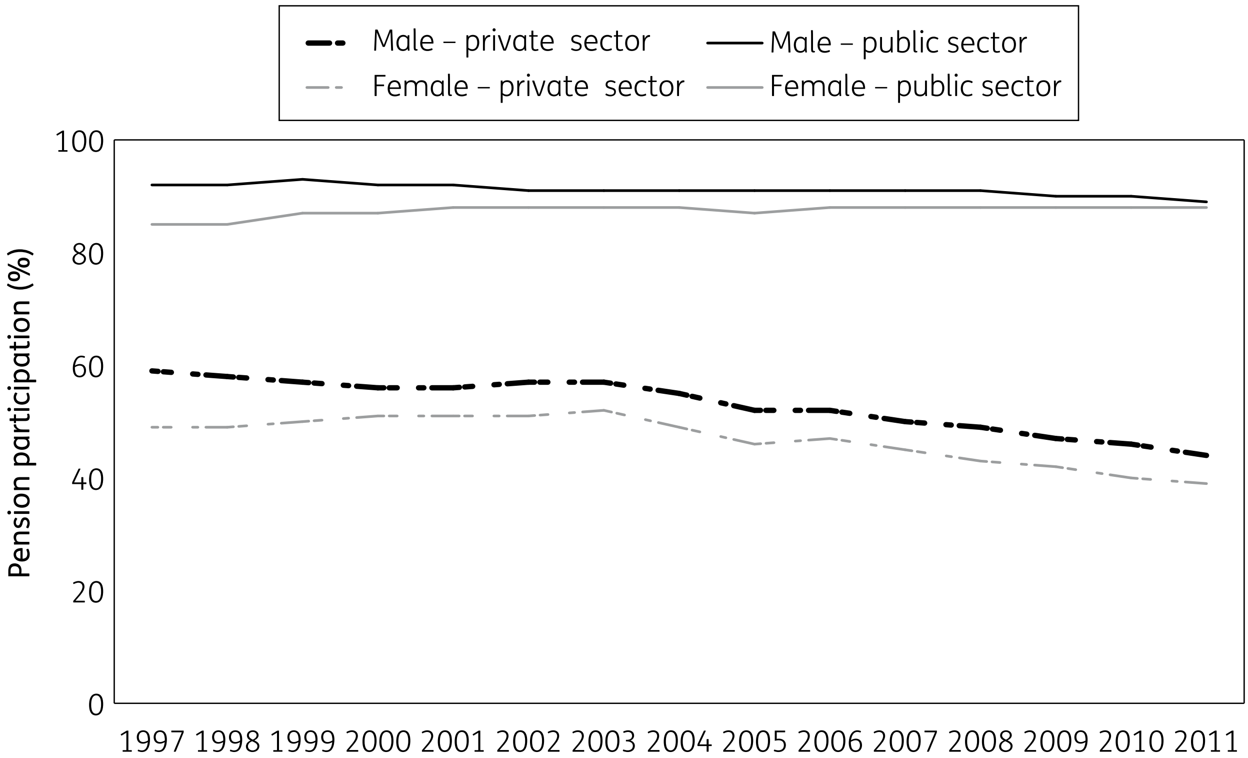
Source: DWP estimates derived from the ONS ASHE, GB, 1997–2011.
Note: Private sector includes not for profit organisations. See Appendix B: ASHE for further details.

3.2.4 Gender

Figure 3.3 shows that female participation in workplace pensions has remained high in the public sector (increasing from 85 per cent to 88 per cent from 1997–2011), but has gradually fallen in the private sector from a high in 2003 of 55 per cent down to 39 per cent in 2011. The percentage of females participating in workplace pensions in the private sector is consistently five to six percentage points lower than their male counterparts from 2000 onwards[44]. Despite this, the overall participation rate of women is higher, due to the greater proportion (around 65 per cent) in the public sector.

44 This reflects the fact that women are more likely than men to be lower earners as a result of part-time working and broken work histories (ONS *Focus on Gender* report, 2006).

Figure 3.3 Eligible employees participating in workplace pensions by sector and gender



Source: DWP estimates derived from the ONS ASHE, GB, 1997–2011.
Note: Private sector includes not for profit organisations. See Appendix B: ASHE for further details.

3.2.5 Disability

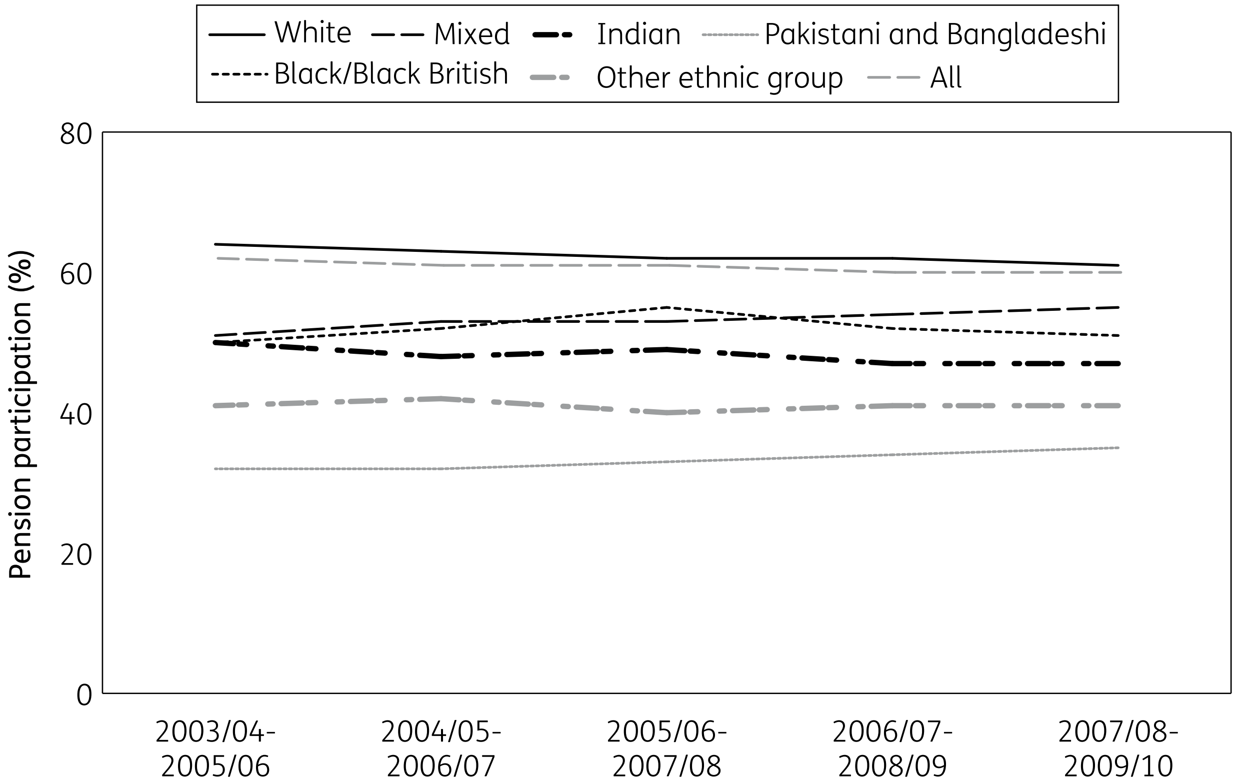
Participation of disabled eligible employees (defined using the definition of disability in the Disability Discrimination Act) has remained relatively constant at 62 per cent in 2009/10 compared with 63 per cent in 2003/04 in all pension schemes. Participation of non-disabled eligible employees has fallen gradually from 64 per cent in 2003/04 to 58 per cent in 2009/10 in all pension schemes, in line with the eligible employees as a whole[45].

3.2.6 Ethnicity

Figure 3.4 shows trends in participation for different ethnic groups. The White ethnic group has the highest pension participation rate, though this has gradually declined from 64 per cent in 2003/04 to 2005/06, to 61 per cent in 2007/08 to 2009/10. The lowest participation is the Pakistani and Bangladeshi ethnic group, though this has slightly increased from 32 per cent in 2003/04 to 2005/06, to 35 per cent in 2007/08 to 2009/10.

45 Modelled analysis derived from the DWP FRS 2003/04 to 2009/10. Figures reflect that disabled people are slightly more likely to work in the public sector where provision and participation are higher (ONS Labour Force Survey, UK).

Figure 3.4 Eligible employees participating in workplace pensions by ethnic group



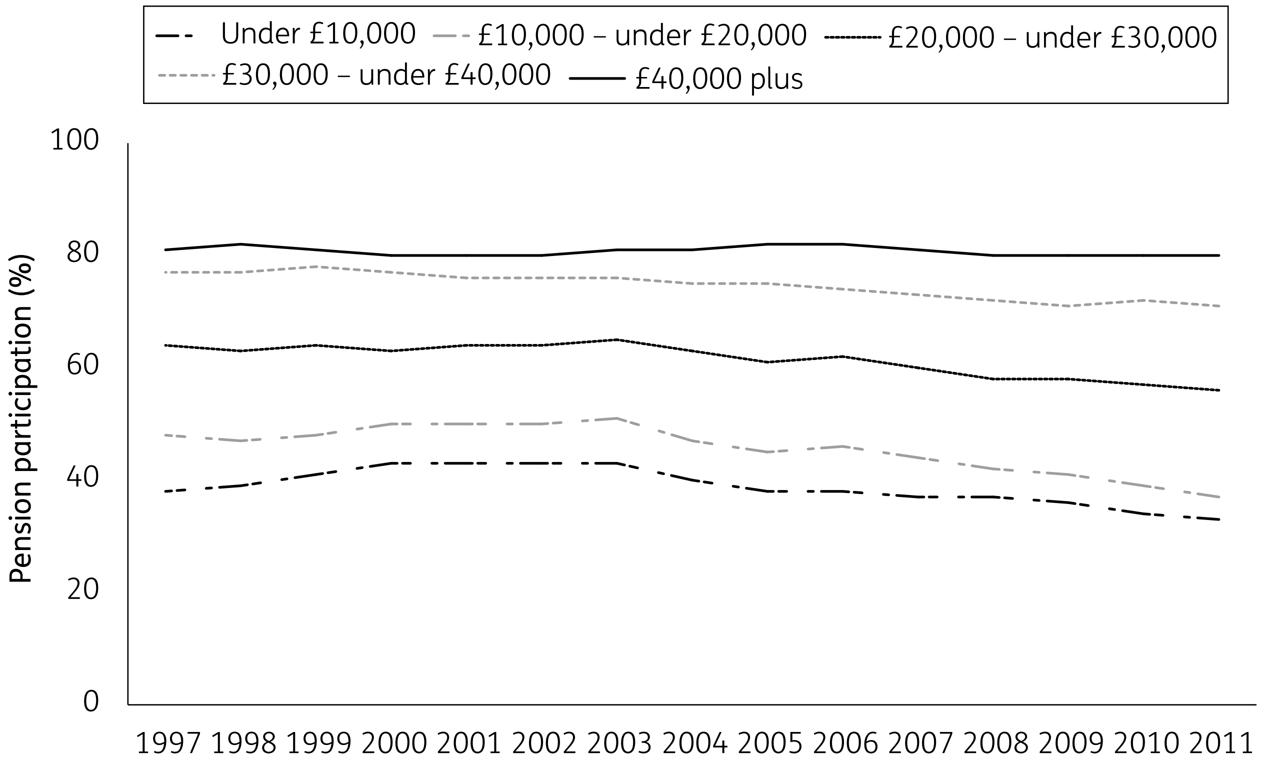
Source: Modelled analysis derived from the DWP FRS, UK, 2003/04 to 2009/10.
Note: Owing to the volatility of single year results, due to small sample sizes, ethnic group analysis is presented as a three-year average.

3.2.7 Earnings

Figure 3.5 shows the participation of eligible employees is directly related with their gross annual earnings. As earnings increase, so does pension participation.

For eligible employees earning more than £40,000, pension participation has remained stable around the 80 per cent level from 1997–2011. Participation for those earnings below £40,000 has decreased gradually with the largest decrease in the £10,000 to £20,000 earnings band, whose participation has fallen from 48 per cent in 1997 to 37 per cent in 2011.

Figure 3.5 Eligible employees participating in workplace pensions by gross annual earnings



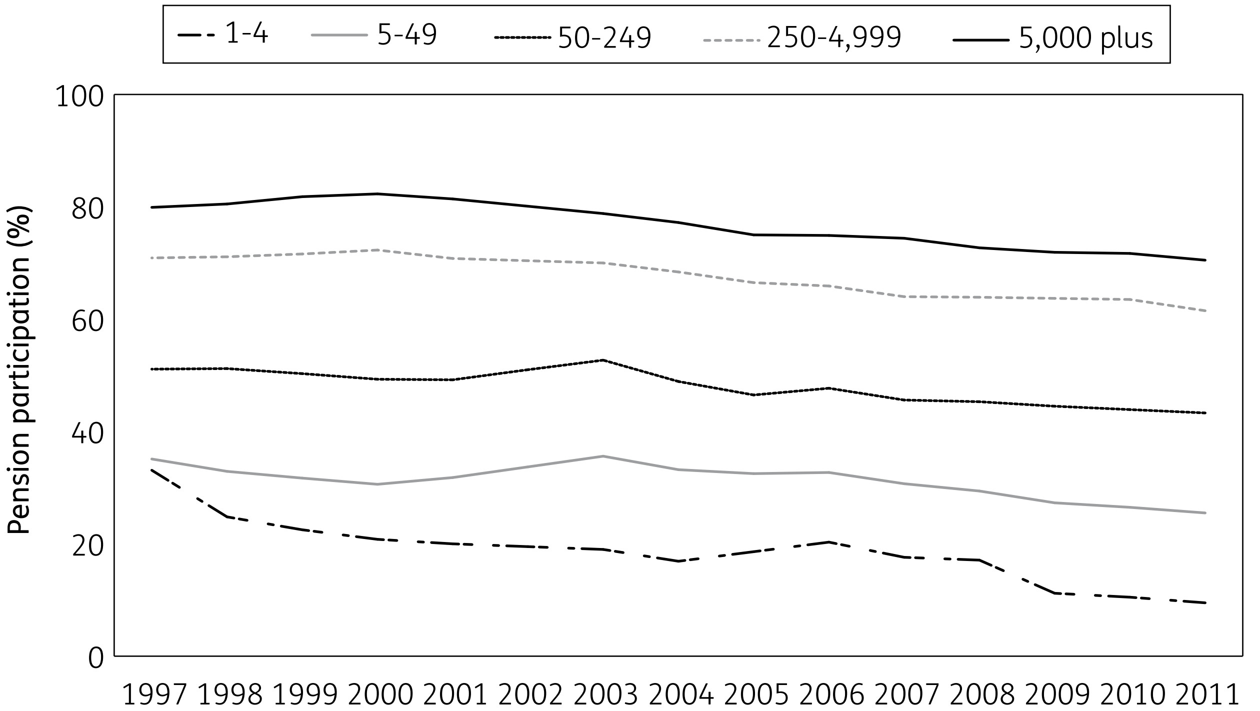
Source: DWP estimates derived from the ONS ASHE, GB, 1997–2011.
Note: Gross annual earnings are derived using weekly pay and have been uprated using Average Weekly Earnings values. See Appendix B: ASHE for further details.
See *Making Automatic Enrolment Work: A review for the Department for Work and Pensions* for estimates of the number of eligible employees in each income band.

3.2.8 Employer size

Figure 3.6 shows that pension participation of eligible employees varies considerably by employer size. The largest employers (5,000+ employees) have the highest pension participation of 71 per cent in 2011, which has declined from 80 per cent in 1997. Conversely, the micro employers (one to four employees) have a participation rate of ten per cent in 2011, which has decreased from 33 per cent in 1997.

This variation is partly explained by splitting this information by sector. This shows that 50 per cent of private sector employees work for employers with at least 500 employees, compared to 94 per cent in the public sector.

Figure 3.6 Eligible employees participating in workplace pensions by employer size

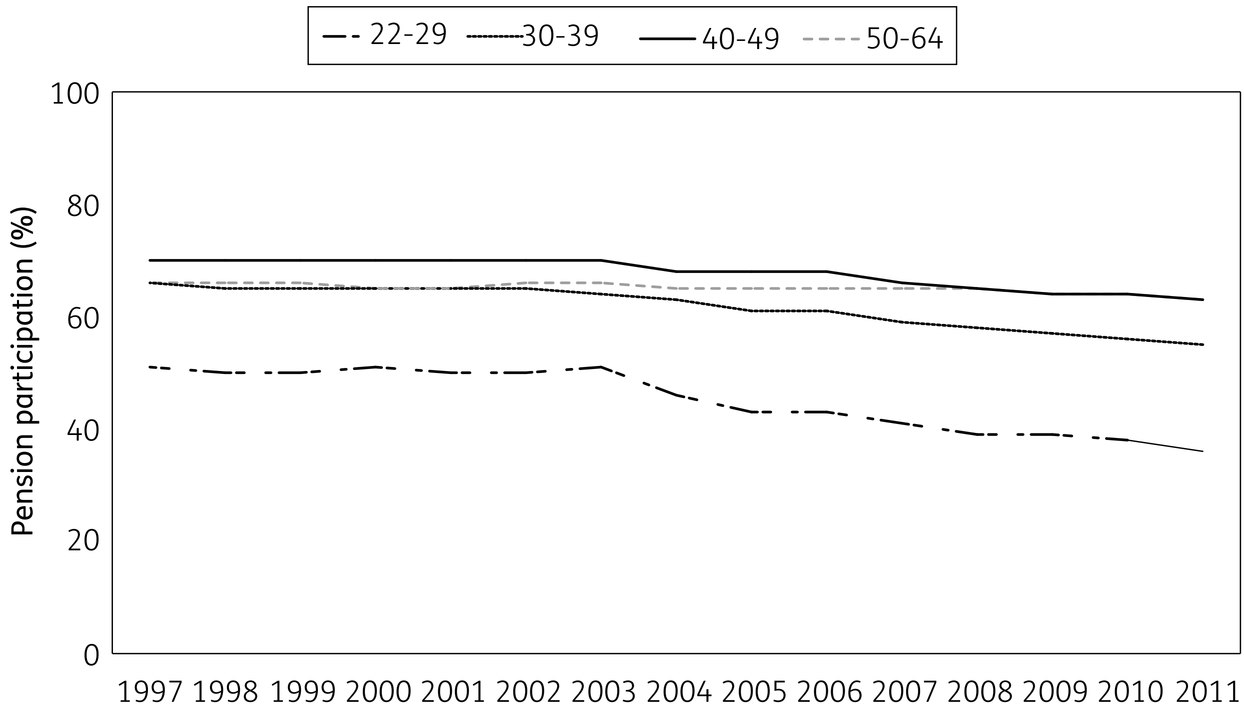


Source: DWP estimates derived from the ONS ASHE, GB, 1997–2011.
Note: Data for 2002 contained 12 per cent of employees having a missing value for their employer size, which resulted in a bias in the results. Analysis has been smoothed to remove this bias. See Appendix B: ASHE for further details.

3.2.9 Age

Figure 3.7 shows participation of eligible employees has declined across all age bands, particularly the youngest age groups (22 to 29 year olds) who have fallen from 51 per cent in 1997 to 36 per cent in 2011, while participation rates for 50 to 64 year olds have fallen marginally from 66 per cent to 63 per cent in the same time period.

Figure 3.7 Eligible employees participating in workplace pensions by age band



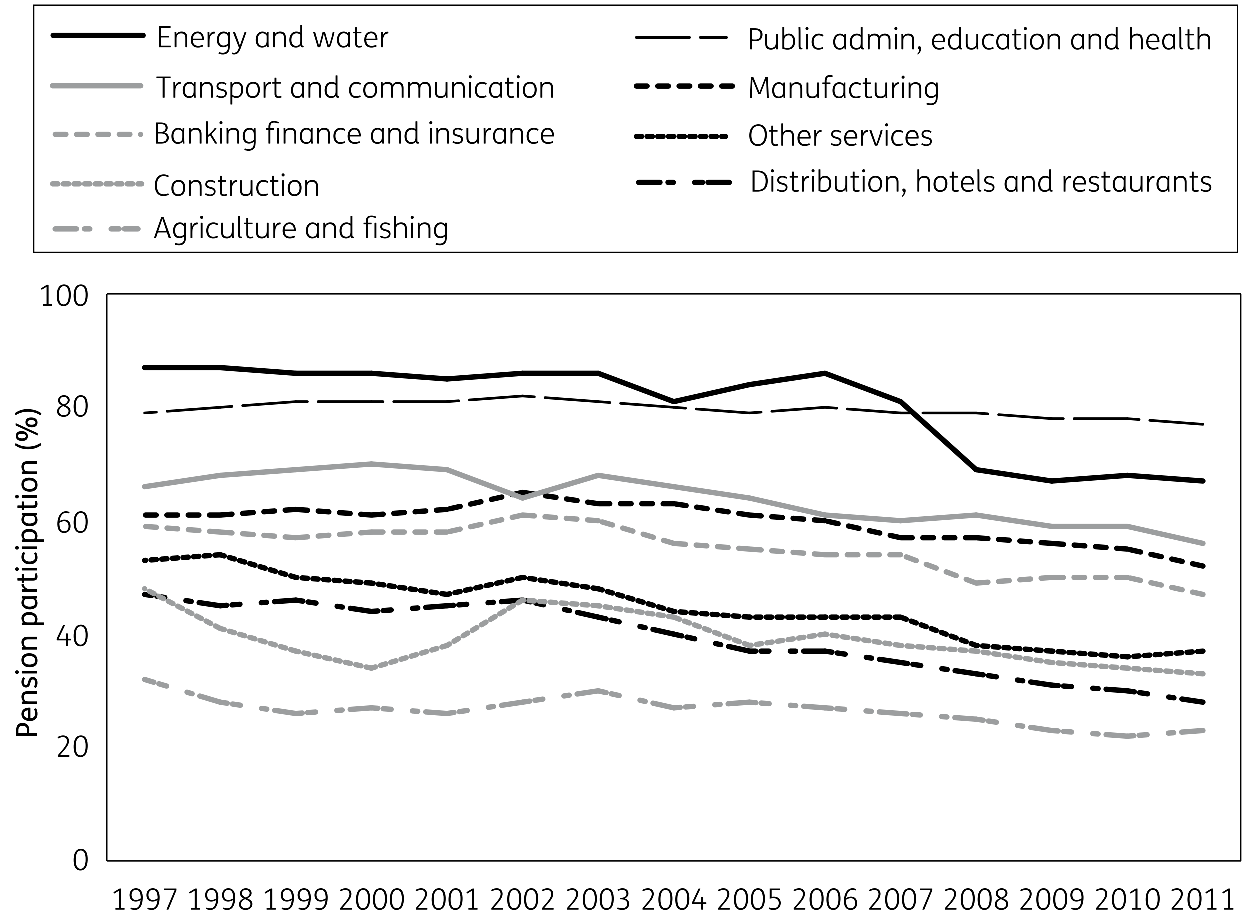
Source: DWP estimates derived from the ONS ASHE, GB, 1997–2011.
Notes: See Appendix B: ASHE for further details.

3.2.10 Industry

Figure 3.8 shows the majority of industries have experienced some fall in participation. The exception is Public Administration, Education and Health, which has remained relatively stable. These industries are dominated by public sector employers and reflect the relatively stable nature of public sector participation.

Large decreases can be seen in Distribution, Hotels and Restaurants which has fallen to 28 per cent in 2011 from 47 per cent in 1997, Energy and Water which has also fallen from 87 per cent to 67 per cent in 2011, and Construction which has fallen to 33 per cent from 48 per cent in the same time period.

Figure 3.8 Eligible employees participating in workplace pensions by industry

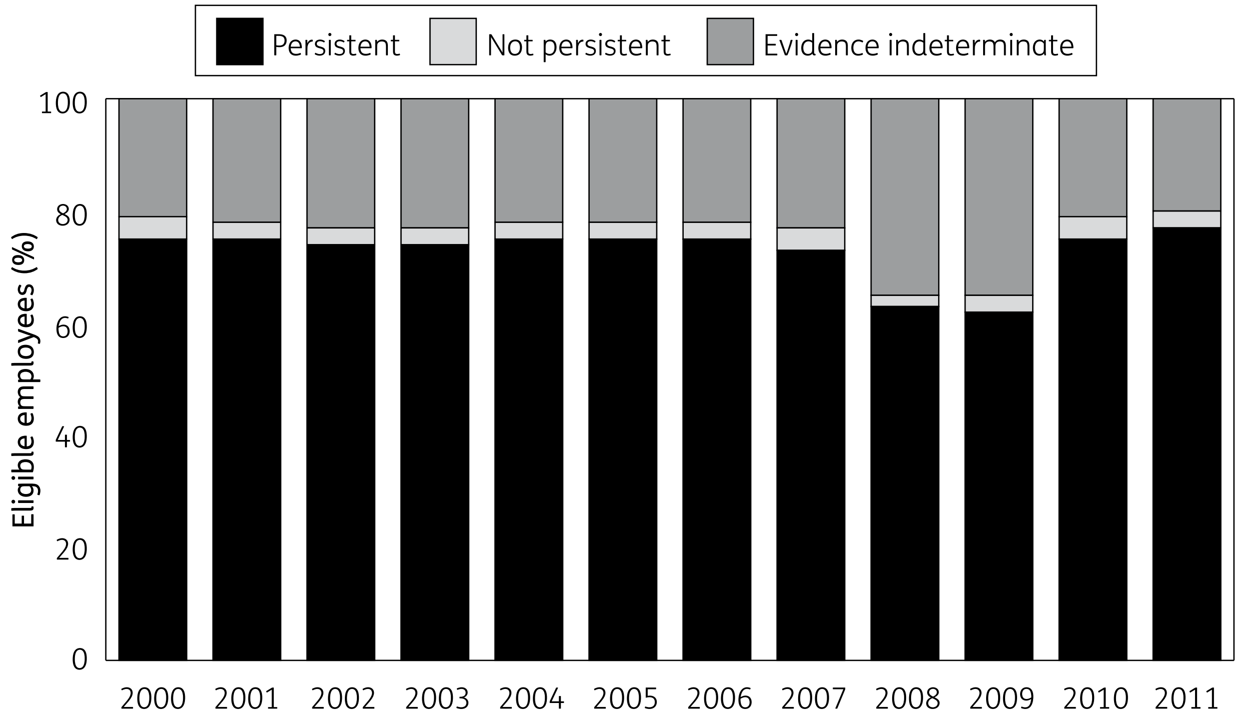


Source: DWP estimates derived from the ONS ASHE, GB, 1997–2011.
Note: See Appendix B: ASHE.

3.3 Persistency of saving

Once individuals are saving in a workplace pension the aim is to keep them saving persistently (defined as saving in three out of a period of four years). In Figure 3.9, the estimates shown are based on the number of years an eligible saver has been saving in a four year period. For example, the 2011 estimate is based on the number of years saving between 2008 and 2011. The analysis shows broadly 75 per cent of the eligible employees are currently saving persistently. The figure also shows individuals who are not persistent (saving in fewer than three years) and those who have an indeterminate amount of evidence to judge either way.

Figure 3.9 Persistency of eligible employees participating in workplace pensions



Source: DWP estimates derived from the ONS un-weighted longitudinal ASHE, GB, 1997–2011.
Notes:

1 An eligible employee can disappear from the cohort either through voluntary cessation (stopping saving), leaving the labour market, staying with or moving to an employer who does not return the ASHE questionnaire.

2 The fall in persistency in 2008 and 2009 is the effect of the ASHE sample cut in the 2007 and 2008 surveys, which resulted in employees moving into the evidence indeterminate group in the persistency measure due to a lack of data.

3 See Appendix B: ASHE for further details.

3.3.1 Survival analysis

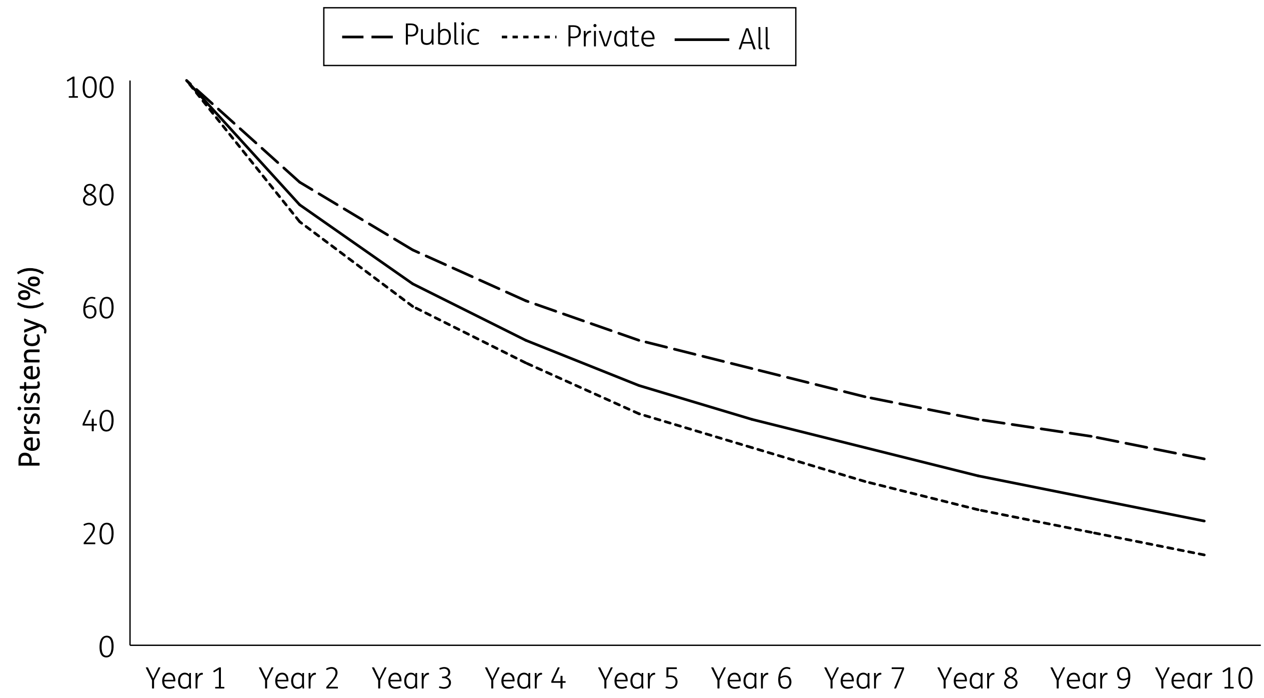
Survival analysis takes a cohort of eligible savers in each year and charts the survival rate of their pension participation year on year. Compared with the persistency of saving measure which requires four years of data and subsequently a three year lag before effects can be measured, survival analysis enables an assessment of the effects of the reform more quickly with just a one year lag. This will therefore be used to support the persistency of saving measure; as a measure of eligible savers can be gained after one year.

Figure 3.10 uses a simple regression model to compare all available cohorts and their survival rates over a ten year period. Overall, the survival rate estimates in the public sector are higher and the private sector lower. These estimates are consistent with the saving persistently estimates and reflect the current higher stability of the public sector workforce compared to the private sector[46] and higher availability of workplace pensions in the public sector[47].

46 Labour Force Survey, 2011.

47 These estimates are broadly consistent with analysis by the FSA in the report *2011 Survey of the persistency of Life and Pensions policies*. At: http://www.fsa.gov.uk/pubs/other/persistency_2011.pdf

Figure 3.10 Survival analysis of eligible employees participating in workplace pensions by sector



Source: ONS unweighted longitudinal ASHE, GB, 1997–2006.

Notes:

1 Private sector includes not for profit organisations.

2 An eligible employee can disappear from the cohort either through voluntary cessation (stopping saving), leaving the labour market, staying with or moving to an employer who does not return the ASHE questionnaire.

3 To remove any bias introduced in the longitudinal time series by the sample cut, survival analysis will be performed on the ten years of data available prior to the sample cut.

4 See Appendix B: ASHE for further details.

Further survival rate breakdowns of eligible employees by gender show similar survival rates, with females marginally higher than males. This is likely to be due to the higher proportion of females (around 65 per cent) in the public sector.

3.4 Opt out and reasons for opt out

Automatic enrolment aims to harness individuals' inertia in thinking about retirement and pension saving, while preserving individual responsibility for the decision about whether to save in a workplace pension, so those who consider pension saving is not in their best interest can opt out. Opt out rates are important in assessing the impact of the reforms, because they will provide an early indication of whether automatic enrolment is proving effective in increasing participation.

3.4.1 Predicting opt out and reasons in 2009

Research into individuals' attitudes and intentions has been important in informing the way the reforms are designed and implemented. However, this information can only be used indicatively because individuals views will be based on their perception of their future behaviour and may not reflect their actual behaviour. Future reports will monitor opt out and reasons for opt out, as well as the extent to which individuals voluntarily cease saving and reasons for ceasing saving. This will be important in determining whether the policy is working as intended in practice, and will help to identify where the policy can be adapted and improved.

Indicative research from 2009 suggests that around two-thirds (65 per cent) of individuals will remain in pension saving once automatically enrolled. Around a tenth (11 per cent) of eligible workers said they would probably opt out and a tenth (nine per cent) said they would definitely opt out of a workplace pension if automatically enrolled. Around 15 per cent were undecided, saying it depends on other factors. Overall, the intention to opt out did not differ by gender or age[48]. Estimates were consistent with the 2007 research findings.

Individuals who said they would probably or definitely opt out of the workplace pension scheme were asked what they would do at the subsequent re-enrolment. Around a half (46 per cent) of these individuals said they would definitely or probably opt out again.

When asked for reasons for opt-out, around a half (54 per cent) thought they couldn't afford to pay into the pension, and a tenth (11 per cent) mentioned a specific concern that employers would make them redundant, cut their pay or that pay rises may be lower. While opt out levels do not differ by age, age does appear to affect the reasons for opt out. Individuals opting out for reasons related to affordability were higher for the under 40 group (66 per cent) compared to the over 40 group (42 per cent). On the other hand, 17 per cent of the over 40 group felt that enrolling in a workplace pension would be a risk to the employer, their job or their pay compared with only five per cent of the under 40 group[49].

3.5 Understanding the benefits of saving

To assist in the delivery of the reforms, the Department is delivering a communications and information strategy aimed at raising awareness of automatic enrolment and the benefits of staying in a workplace pension. The strategy will also provide information to help employers and individuals understand what automatic enrolment means for them in practice.

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48 Bourne, T. *et al.* (2010). *Individuals' attitudes and likely reactions to the workplace pension reforms 2009*. DWP Research Report No. 669 at:
http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep669.pdf
and Webb, C. *et al.* (2008). *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Research Report No. 550, 2008 at:
http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep550.pdf
Sample includes public sector workers.

49 Due to the relatively low numbers of respondents stating they would opt out, there was limited scope to do other sub-group analysis.

3.5.1 Accepting the need to save in a workplace pension

Evidence from the October 2011 DWP Communication Tracker survey showed that, before the January 2012 advertising campaign targeted at individuals, around six in ten (61 per cent) respondents agreed that they would always save in a workplace pension if one was available. This level has been consistent across previous waves of the tracker[50].

3.5.2 Recognising the benefits of saving in a workplace pension

The 2011 DWP Communication Tracker also showed that overall awareness of automatic enrolment was low, but that the idea does have clear appeal.

Around two-thirds (65 per cent) of individuals were not aware of the requirement for employers to enrol workers into a workplace pension scheme. Individuals identified the top five benefits of the reforms as being: employer contributions (54 per cent), a hassle free way to start a pension (42 per cent), making saving money easier (38 per cent), Government contribution (i.e. tax relief) (33 per cent), and helping individuals to take control of their future (30 per cent)[51].

Future reports will continue to monitor the extent to which individuals are accepting of the need to save in a workplace pension and recognise the benefits of doing so.

3.6 Providing information

The Department is working with its delivery partners (NEST Corporation, the regulator, the Pensions Advisory Service and the Money Advice Service) to provide accessible and effective information to ensure that individuals have the information they need about their options when they are automatically enrolled. One of the key criteria for effective information for individuals is that it should be sufficient to ensure they are not discouraged from saving purely through lack of or poorly presented information.

Research by the Department in 2009 in advance of the information strategy showed that a variety of information sources is likely to be necessary to satisfy demand. Some individuals will prefer an independent source of information, but many expect to look to DWP and Government. The research also suggested information has a key role to play in influencing whether individuals accept or reject automatic enrolment. Those who want information need to be able to find clear explanations of what is happening to them and why in terms they can understand.

Information for employers is also important, not just to ensure that they understand their duties (see Chapter 2) but also so they can communicate effectively with their employees. Employers will be required to provide information to all workers, as well as signposting them to information about saving for retirement.

Future reports will monitor the extent to which individuals can access information about the reforms and their understanding of it.

50 DWP (2011). *Pensions Portfolio: Communications tracking research, October 2011*. At: http://www.dwp.gov.uk/docs/comm-res-pll-trackers7-0312.pdf

51 DWP (2011). *Pensions Portfolio: Communications tracking research*. Ibid.

4 Increasing the amount of savings

Summary

- While the overall number of individuals saving has fallen, trends in total workplace pension saving have remained broadly stable in recent years. Saving in private sector workplace pensions has fallen from £39.3 billion per year in 2007 to £35.0 billion in 2011. However, total pension saving in public sector workplace pensions has risen over the same period from £31.9 billion per year to £35.1 billion in 2011 (in 2011/12 earnings terms)[52].
- Overall, over 90 per cent of those employers who currently make contributions of three per cent or more said they would not change their scheme or reduce contribution levels for existing members in response to an increase in total contribution costs. Recent trends support these findings, showing only a marginal increase in employees experiencing some form of levelling down in the private sector, from eight per cent to 11 per cent from 2005 to 2010.
- While active membership of best years earnings Defined Benefit (DB) schemes has decreased from 1.1 million in 2007 to 0.7 million in 2010, career average DB schemes are becoming more prevalent, with active membership increasing from 0.3 million in 2007 to 0.5 million in 2010. There has also been a decline in membership of 60ths accruals rates DB schemes from 2.2 million in 2004 to 0.9 million in 2010.
- The total stock of saving by eligible workers in 2006/08 was estimated at £3.6 trillion. Pension saving accounted for half (£1.7 trillion) of this. Net property saving (including main and other properties) accounted for around 40 per cent (£1.5 trillion), while net financial saving accounted for just over ten per cent (£0.4 trillion).
- Total median saving (net) including private pension saving, financial saving and property saving was £93,100 still accumulating in 2006/08. Median private pension saving was £17,300, however the first quartile of eligible employees did not have any private pensions savings. DB pension saving was held by 42 per cent of eligible employees, with 40 per cent holding Defined Contribution (DC) pension saving. The median value of net financial saving for those with such saving was £2,100 with median net value of property saving, including both main and other property, £47,900.

[52] Total pension saving per year is shown nominal terms and includes both funded and unfunded pension saving. See notes accompanying Table 4.1.

4.1 Introduction

Millions of individuals are not saving enough to deliver the income they want or expect in retirement[53]. The reforms aim to transform the culture of saving in the UK. Chapter 3 dealt with the first of the intermediate policy objectives to increase the number of individuals saving. The second intermediate objective is covered by the following evaluation question from the Evaluation Strategy:

> To what extent do the Workplace Pension Reforms increase the amount being saved in workplace pensions? (EQ5)

Future reports will also monitor whether the reforms met the longer term objectives to increase pensioner incomes, reduce pensioner poverty and improve living standards for pensioners.

4.2 Trends in pension saving

The decline in coverage of DB pensions and the introduction of comparably less generous DC schemes has led to a decline in the total amount of pension saving per person towards retirement[54]. The majority of this decline is in the private sector which currently has lower coverage and participation than the public sector.

The reforms aim to reverse this trend and increase the total amount being saved into workplace pensions by £11 billion a year, within a range of £8 billion to £12 billion (in 2012/13 earnings terms), once fully phased in. This increase in saving is expected to result in a rise in individuals' retirement income in the future. DWP estimates show an increase in aggregate private pension incomes of approximately £5 billion to £8 billion per year (in 11/12 earnings terms) by 2050[55].

4.2.1 Total pension saving into a workplace pension per year by sector

Trends in total pension saving per year into a workplace pension by employers, employees, as well as tax relief on employee contributions will be monitored using the ONS Annual Survey of Hours and Earnings (ASHE). Analysis has been validated against the information on pension contributions published in Pension Trends (see Table 4.2)[56].

Table 4.1 shows the recent trends in total pension saving per year into a workplace pension by sector. The analysis shows that there has been a steady increase in the total pension saving per year into public sector workplace pensions from £31.9 billion in 2007 to £35.1 billion in 2011. However, the total pension saving per year into private sector workplace provision has fallen from £39.3 billion in 2007 to £35.0 billion in 2011 (in 2011/12 earning terms).

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53 For a more detailed background to the Workplace Pension Reforms see: http://www.dwp.gov.uk/policy/pensions-reform/background-to-reform/

54 Office for National Statistics (ONS) Annual Survey of Hours and Earnings, 1997 to 2011.

55 Outcomes are dependant on reasonable investment returns.

56 ONS Pension Trends, Chapter 8: Pension contributions, based on the ONS *Pensions methodology, Improved methods for calculating private pension contributions*. At: http://www.ons.gov.uk/ons/rel/pensions/pensions-methodology/improved-methods-for-calculating-private-pension-contributions/index.html

While the average contributions per eligible saver has stayed broadly stable in both the public and private sector, the number of eligible employees participating in workplace pensions in the private sector has fallen from 7.9 million in 2003 to 5.8 million in 2011 (see Chapter 3). Further analysis in this chapter also shows that at least a quarter of eligible employees do not have any private pension savings at all (see Table 4.5).

Table 4.1 Total pension saving of eligible savers into workplace pensions per year by employer and employee contributions and sector

					£
Year	**2007**	**2008**	**2009**	**2010**	**2011**
Public sector					
Total saved (£ billions)	31.9	33.7	35.1	37.2	35.1
Employee contributions	8.1	8.8	8.9	9.5	9.0
Employer contributions	21.4	22.5	23.8	25.1	23.6
Tax relief	2.3	2.4	2.4	2.7	2.5
Per eligible saver (£s)	*6,326*	*6,689*	*6,761*	*6,878*	*6,762*
Private sector					
Total saved (£ billions)	39.3	40.2	37.8	36.7	35.0
Employee contributions	9.8	10.5	10.0	9.8	9.1
Employer contributions	26.3	26.4	24.8	23.8	22.9
Tax relief	3.1	3.3	3.0	3.1	2.9
Per eligible saver (£s)	*5,420*	*5,769*	*5,875*	*6,014*	*6,024*
All employees					
Total saved (£ billions)	71.2	73.9	72.9	73.9	70.1
Employee contributions	18.0	19.3	18.8	19.3	18.2
Employer contributions	47.8	48.9	48.6	48.9	46.5
Tax relief	5.5	5.7	5.5	5.8	5.4
Per eligible saver (£s)	*5,792*	*6,155*	*6,270*	*6,420*	*6,372*

Source: DWP estimates derived from the ONS ASHE, GB, 2007 to 2011.

Notes:

1 ASHE consistently underestimates employer contributions due to problems associated with respondents' access to this information and because lump sum contributions covering more than one employee are excluded. Estimates should therefore be treated with extra caution since the survey is not designed to produce estimates of total savings. ONS does not publish estimates of total savings from ASHE.

2 Total contribution is derived from employees weekly pensionable pay and percentage of employer and employee contributions. No filters have been used for loss of pay in the pay period. Tax relief is derived by calculating the tax that would have been paid before pension contributions, and the tax that was actually paid after pension contributions. Where relevant, this calculation factors in the higher and additional tax threshold of 50 per cent on income over £150,000, introduced in 2010.

3 Figures are in 2011/12 earning terms and include both funded and unfunded pension contributions.

4 Private sector includes not for profit organisations.

5 See Appendix B: ASHE for further details.

While a direct comparison between the sources is not possible, Table 4.2 shows that the ASHE estimates compare closely with the estimates extracted from Pension Trends for the total pension saving per year for all working age employees. Further breakdowns show broadly similar results.

Table 4.2 Comparison of working age employees total pension saving per year into an occupational pension scheme by employee and employer contributions

					£ billion
	2007	**2008**	**2009**	**2010**	**2011**
Pension Trends[1]					
Employee contributions	14.4	14.4	13.5	13.5	**
Employer contributions	51.0	47.6	53.4	62.5	**
ASHE[2]					
Employee contributions	16.8	18.7	18.6	19.3	18.7
Employer contributions	44.6	47.4	48.1	49.1	48.0

** indicates data not available

Sources:

1 ONS Pension Trends, Chapter 8: Pension contributions, analysis based on the ONS Improved Methods for calculating private pensions contributions.

2 DWP estimates derived from the ONS ASHE, GB. See Table 4.1, notes 1, 2 and 5.

3 Figures are in nominal terms and include both funded and unfunded pension contributions.

4 Pension Trends looks at the funding of schemes, rather than the contributions paid in employment which the ASHE estimates shows. Although ASHE also includes contributions to non-occupational employer sponsored pensions, comparison between the two sources is only possible for occupational pensions. Since the reforms are focused on workplace pensions, limited comparability between the two sources is sufficient.

4.3 Employer contributions and levelling down

Employers will need to meet the costs of contributing into their employees' pensions and the associated administration costs when complying with the new duties. The 2011 employer research showed that only ten per cent of private sector employers (employing 62 per cent of employees) provide an open workplace pension for their employees with a pension contribution. While the vast majority of employees are eligible to join a workplace pension scheme, only 26 per cent of employees are active members[57].

There is a risk that some employers may level down contributions (see Section 4.3.1) for existing members to manage these additional costs. This could potentially have a detrimental impact on the aim to increase saving. Encouragingly, very few employers indicated that they would change their existing scheme or reduce contribution levels for existing members (two per cent and one per cent respectively[58]. Overall, over 90 per cent of those who currently make contributions of three per cent or more said they would not change their scheme or reduce contribution levels for existing members[59].

57 Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP.

58 Forth, J. and Stokes, L. (2012). Ibid. These proportions stood at eight per cent and three per cent respectively when calculated solely amongst those employers with a workplace pension.

59 Forth, J. and Stokes, L. (2012). Ibid.

While it is unclear how far stated intentions translate into real behaviour, what evidence there is suggests a reasonable degree of correlation between employers given views and their actions (see Chapter 2 and Chapter 5).

4.3.1 Levelling down strategies

The Department intends to monitor nine potential strategies employers could use to level down contributions using the ONS unweighted longitudinal ASHE data. This enables us to compare outcomes for eligible employees amongst a range of different groups. Supportive analysis monitoring levelling down at a national and employer level will be conducted using the ONS Occupational Pension Schemes Survey (OPSS) and the Department for Work and Pensions DWP Employer Pension Provision Survey (EPP), respectively. The nine strategies are summarised in Box 4.1[60]:

Box 4.1 – Strategies employers could use to level down contributions

a Lower employer contributions for a qualifying scheme for existing members as well as new members.

b Change definition of pensionable pay to adjust the amount of contributions paid.

c Lower employer contributions by paying contributions as a lump sum, rather than as a proportion of earnings.

d Increase employee contributions to offset reduction in employer contributions.

e Freeze the level of pensionable pay for employees.

f DB schemes could be changed from final salary to career average or hybrid schemes, or to a less generous DC scheme.

g Accrual rates of DB schemes could be lowered.

h Operate a different scheme for new scheme joiners with lower employer contributions.

i Operate a different scheme for certain employees with different contribution rates. For example, higher contributions restricted to management grades.

The six employee destinations for eligible employees who are existing members of a workplace pension using the unweighted longitudinal ASHE are summarised in Box 4.2:

60 ONS unweighted longitudinal ASHE will be used to measure strategies ‘a’ to ‘e’, ONS OPSS will be used to measure strategies ‘f’ and ‘g’ and the DWP EPP will be used to measure ‘h’ and ‘i’.

Box 4.2 – Employee destinations for ASHE analysis of levelling down

No levelling down: These employees show no evidence of levelling down of employer contributions.

Levelling down: These employees show evidence that levelling down has taken place.

Evidence indeterminate: There is not enough evidence available to make a judgement about whether levelling down has occurred or not.

Pension saving stopped: Employees in this group must be saving in a workplace pension in Year 1 and must not be saving in a workplace pension in Year 2.

Pension type switched: Employees in this group must be saving in a workplace pension in Year 1 and saving in a different type of workplace pension in Year 2.

DB schemes in both years. This includes public sector DB schemes.

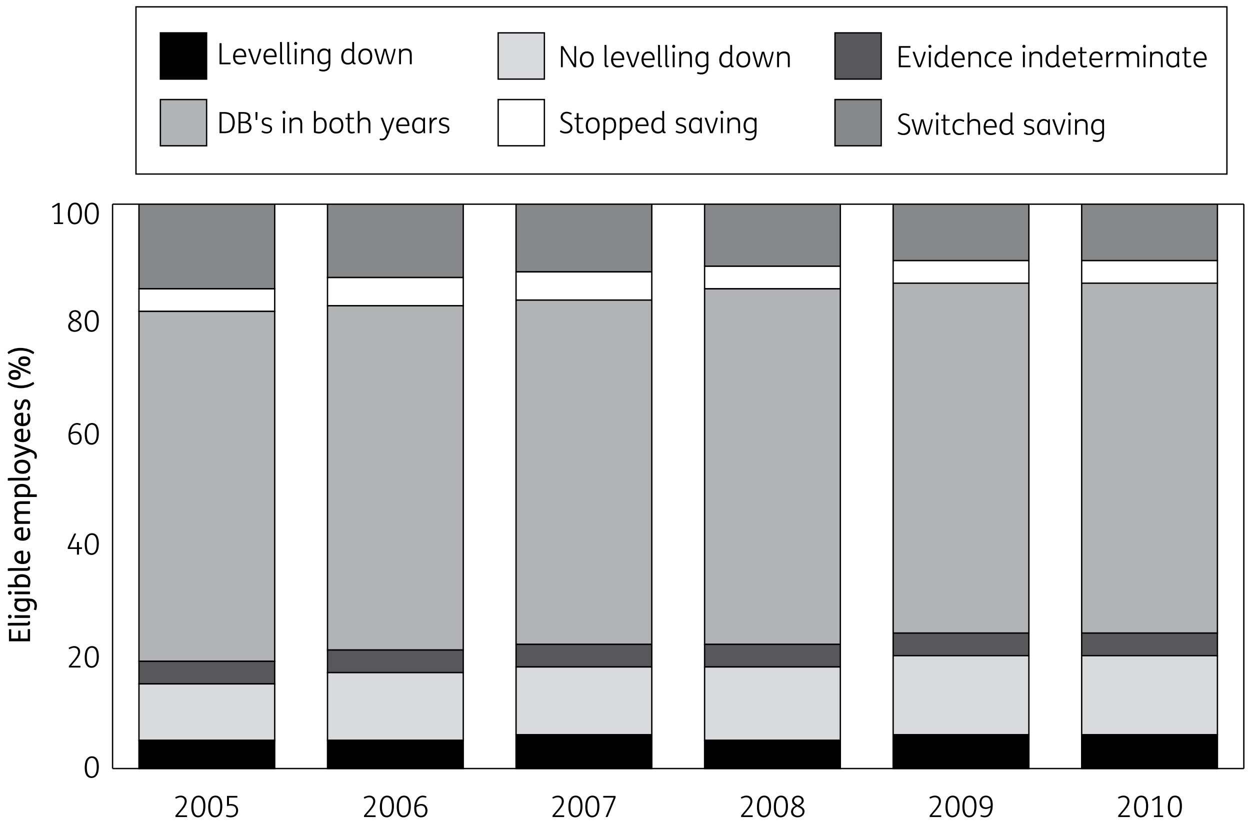
4.3.2 Levelling down for all eligible savers

Figure 4.1 shows the recent trends in levelling down by the six employee destinations defined in Box 4.2[61]. A consistent level of levelling down of around five to six per cent is evident. No levelling down destination for eligible savers increased slightly from ten per cent to 14 per cent between 2005 and 2010, while the switched saving (predominantly DB to DC) destination has decreased from 16 per cent in 2005 to ten per cent in 2010. All other destinations have remained broadly consistent over this time period.

Further analysis of those eligible savers who have experienced some form of levelling down while in DC provision shows the vast majority (60 per cent) have experienced a fall in employer pension contributions between 2010 and 2011. This proportion has been relatively stable since 2005, where it measured 64 per cent. Changing pensionable pay to be less than basic pay in the second year, when it equalled basic pay in the first year, was the second most frequently used strategy. The presence of this has also been relatively stable, increasing marginally from 12 per cent between 2005 to 2006, to 15 per cent between 2010 to 2011.

61 Only eligible savers in the first year of the levelling down measure, who have data in both years of the levelling down measure, and who are in the same job for both years of the levelling down measure have been included in this analysis.

Figure 4.1 Levelling down eligible savers employer contributions in a workplace pension



Source: DWP estimates derived from the ONS unweighted longitudinal ASHE, GB, 2005–2011.
Notes:
1 An eligible employee can disappear from the cohort either through voluntary cessation (stopping saving), leaving the labour market, staying with or moving to an employer who does not return the ASHE questionnaire.
2 See Appendix B: ASHE for further details.

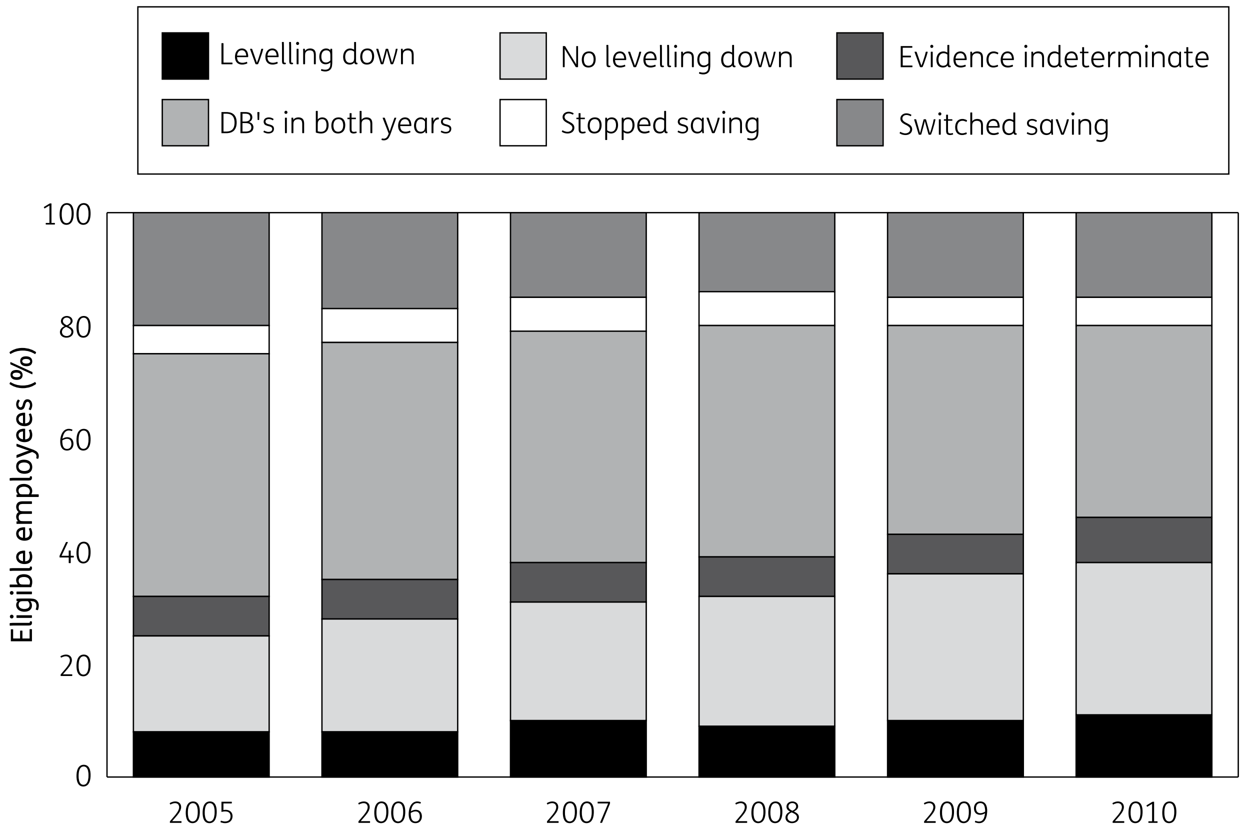
4.3.3 Levelling down by sector

Upon splitting Figure 4.1 by sector, a clear distinction is found with 91 per cent of employees currently remaining in DB schemes in the public sector (including not for profit organisations). Changes in retirement benefits or accrual rates in DB schemes cannot be identified using ASHE. All subsequent analysis from ASHE will therefore be restricted to the private sector.

Figure 4.2 shows levelling down in the private sector increases from eight per cent to 11 per cent from 2005 to 2010. The proportion of employees with no levelling down also increases at a much higher rate from 17 per cent to 27 per cent in the same time frame. The decrease in the availability of DB schemes has seen the proportion of employees having these in successive years falling from 44 per cent in 2005 to 34 per cent in 2010[62].

62 DB scheme in both years appears to increase with employer size, since larger employers are more likely to have participated in the survey in both years than smaller employers.

Figure 4.2 Levelling down eligible savers employer contributions in the private sector

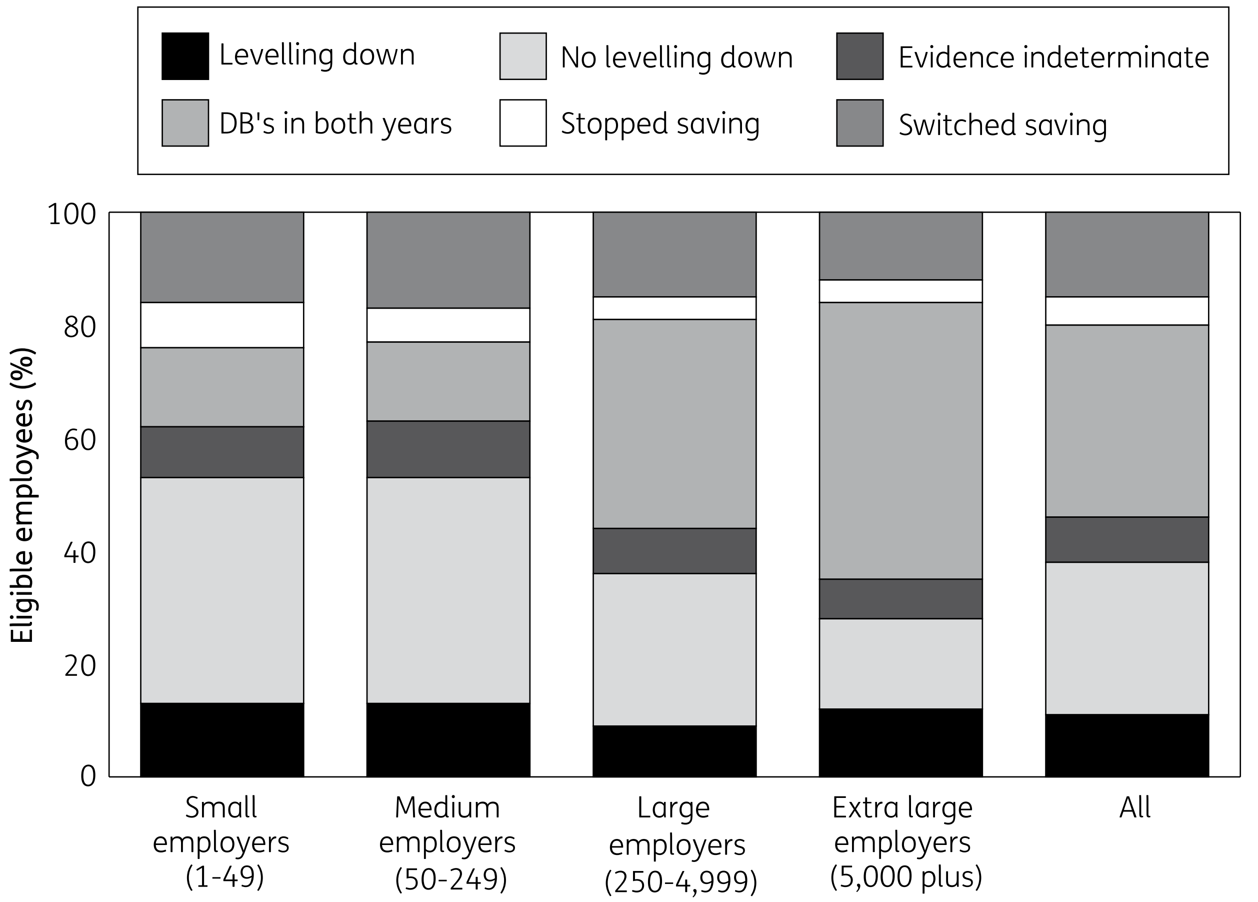


Source: ONS unweighted longitudinal ASHE, GB, 2005–2011.
Notes:
1 Private sector includes not for profit organisations.
2 See Appendix B: ASHE for further details.

4.3.4 Levelling down by employer size

Figure 4.3 shows that levelling down is consistent across all employer sizes between 2010 to 2011, 13 per cent in small employers (five to 49 employees) employers and 12 per cent in extra large employers (5,000+ employees) employers.

Figure 4.3 Levelling down of eligible savers employer contributions in the private sector by employer size



Source: ONS unweighted longitudinal ASHE, GB, 2005-2011.

Notes:

1 Private sector includes not for profit organisations.

2 See Appendix B: ASHE for further details.

4.3.5 Levelling down by industry

Levelling down can also be analysed by the industry classification the employer belongs to. The industry with the highest proportion of levelling down employers is 'Distribution, Retail and Hotels' with 19 per cent. This compares to just three per cent for 'Energy and Water' and four per cent for 'Banking, Finance and Insurance', which tend to be larger, more stable employers[63].

4.3.6 Retirement benefits of DB schemes

Table 4.3 shows the different options for calculating retirement benefits of DB schemes. A final salary scheme could be potentially levelled down to a career average, hybrid schemes, or even to a DC scheme in the private sector[64]. The best years earnings and average of the best years earnings has decreased for all active members from a high of 1.1 million in 2007 for both to 0.7 million and 0.9 million respectively in 2010.

63 Inter-departmental business register (IDBR), see Table A5.3 at: http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-199678

64 Currently there is no evidence of levelling down in the public sector. Future reports will monitor potential levelling down in public sector pensions in light of the *Hutton Review of Fair Pay in the Public Sector*.

Overall career average schemes, which use average earnings over the whole career rather than final earnings, are becoming more common, increasing from 0.3 million in 2007 to 0.5 million in 2010.

Table 4.3 Number of active members of private sector DB schemes by pensionable earnings used for calculating benefits

				millions
	2007	**2008**	**2009**	**2010**
Earnings in period or point in time up to 12 months before retirement	0.9	0.7	0.7	0.6
Best year's earnings in last X years	1.1	0.9	0.8	0.7
Average year's earnings in last X years	0.2	0.4	0.3	0.3
Average of best Y years' earnings in last Z years	1.1	0.9	0.9	0.9
Average earnings over whole career revalued in line with prices	0.3	0.3	0.5	0.5
Average earnings over whole career revalued in line with earnings	0.0	0.0	0.0	0.0
Other, different approaches	0.3	0.3	0.3	–

Source: ONS OPSS Table 5.7, UK, 2010.

1 Multiple response question so members may appear in more than one category.

2 Excludes schemes with fewer than 12 members.

3 Average earnings over whole career includes career average revalued earnings schemes.

4.3.7 Membership by accrual rate of DB schemes

Table 4.4 shows the decline of 60ths accrual rates over the last seven years, with the absolute number falling from 2.2 million in 2004 to 0.9 million in 2010. This group remained relatively stable as a proportion of total active membership from 2004 to 2007 (just over 60 per cent), but has fallen to 48 per cent in 2010. This is in sharp contrast to the presence of 80ths accrual rates, which increased from 0.1 million to 0.2 million from 2004 to 2010, but increased as a proportion from three per cent to 11 per cent of total active membership in the same time frame.

Table 4.4 Number of active members of private sector DB occupational pension schemes by accrual rate

	2004	2006	2007	2008	2009	2010
50ths or better	0.1	0.2	0.1	0.1	0.1	0.1
Between 50ths and 60ths, or 60ths plus an additional lump sum	0.4	**	**	**	**	**
Between 50ths and 60ths	**	0.2	0.2	0.2	0.1	0.1
60ths plus an additional lump sum	**	**	**	**	0.2	0.1
60ths	2.2	1.8	1.6	1.4	1.1	0.9
80ths plus 3/80ths lump sum	0.4	0.3	0.3	0.3	0.4	0.3
Between 60ths and 80ths	0.3	0.2	0.3	0.2	0.2	0.2
80ths	0.1	0.2	0.1	0.2	0.1	0.2
Less generous than 80ths	0.1	0.0	0.0	0.1	0.0	0.0
Non response	0.1	0.0	**	**	0.1	**
Totals	**3.6**	**2.9**	**2.6**	**2.5**	**2.3**	**1.9**

Source: ONS OPSS Table 5.1, UK, 2010.

1 ** indicates data unavailable.

2 Excludes schemes with fewer than 12 members.

3 The 2005 survey did not collect information on accrual rates.

4 Due to changes in the definition of the private and public sectors, estimates for 2000 onwards differ from earlier years. From 2000 organisations such as the Post Office and the BBC were reclassified from the public to the private sector.

5 Changes to methodology for 2006 onwards mean that comparisons with 2004 and earlier should be treated with caution.

4.3.8 Operating different schemes

To manage the additional costs associated with the reforms, employers may operate a different scheme for certain employees or for new scheme joiners with lower employer contributions. While offering more than one type of provision does currently occur, when employers close schemes or for the reasons outlined, the prevalence of multiple workplace pension schemes is relatively low (16 per cent in 2011, the equivalent figure in 2009 was 23 per cent)[65]. Among the minority of employers with more than one workplace scheme (these are mainly larger employers), the average number of schemes was two.

Indicative employer research suggests employers who already provide pensions for their employees expect to leave their current provision unchanged (see Chapter 5). Only one in seven pension providing employers (14 per cent) said they will seriously consider making changes to their provision. This may be because many of them have not yet begun to actively consider the implications of the reforms for their existing provision.

Future reports will monitor the changes in multiple workplace pension provision along side eligibility criteria for joining a scheme and the year in which new schemes are introduced to try and understand the prevalence of this levelling down strategy.

[65] Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP.

4.4 Household savings

The reforms are estimated to increase the total amount saved into workplace pension provision by £11 billion a year, within a range of £8 billion to £12 billion per year, once fully phased in (in 12/13 earnings terms). The total stock of household saving is important in understanding how much of this 'new' saving, in workplace pensions, is offset by individuals switching from other forms of existing saving. The extent to which this happens will be an important determining factor in the success of the reforms.

Estimates of the likely offset in other forms of saving vary greatly between different studies and countries. The Department's latest assessment of relevant research suggests an estimate of around 30 to 70 per cent with a principal estimate of 50 per cent. In other words, an 'offset' rate of 50 per cent would indicate that half of all the additional saving into workplace pension schemes would be new saving and the other half would represent a reduction in other forms of existing saving.[66]

4.4.1 Net savings

Analysis of the ONS longitudinal Wealth and Assets Survey (WAS) enables us to monitor the distribution of the total stock of net savings for all eligible employees, including those with negative saving (i.e. debt), compared to other economic groups[67]. In 2006–08 the total stock of net saving for all eligible employees was around £3.6 trillion. Pension saving is the largest contributor and accounts for £1.7 trillion, almost 50 per cent of the total. Net property saving (including main and other properties) accounts for £1.5 trillion, around 40 per cent, while net financial saving accounts for £0.4 trillion, just over ten per cent[68].

Data on pensions and financial assets, which are held in the name of one person, are recorded on an individual level. However, for joint accounts a spouse or partner may have a share of these assets or, in cases of divorce, have rights to them. With property, which is normally held jointly by members of a couple, the data is recorded on a household level. In order to produce approximate estimates at an individual level, these types of savings (i.e. joint accounts and property) were split equally by the number of adults in the household.

Table 4.5 summarises the distribution of the total stock of net savings for all eligible employees. Tables 4.6, 4.7 and 4.8 explore the three key components of saving in turn. Estimates are expressed as mean, first quartile, median and third quartile as well as high and low extremes represented by the 10th and 90th percentiles respectively. The median is the preferred measure of central tendency or 'average' because many of the distributions are positively skewed causing the mean to be influenced by extreme values from the small proportion of households with very high savings levels. In such unequal distributions, the mean will not reflect the experience of most households.

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66 DWP 2012, *Supplementary review of research relevant to assessing the impact of Workplace Pension Reforms on household savings*.
At: http://research.dwp.gov.uk/asd/asd5/report_abstracts/ihr_abstracts/ihr_010.asp

67 This report focuses mainly on eligible employees. Future reports will explore the distribution of the different components of wealth for other economic groups such as the self employed. See notes accompanying Table 4.5.

68 DWP estimates derived from the ONS WAS, GB. In UK terms, a £1 trillion is equivalent to £1,000 billion. Total household savings excludes physical assets (household goods, collectibles/valuables and vehicles), informal financial assets (amounts lent or saved informally) and children's financial assets. Estimates presented are net (i.e. assets minus liabilities). WAS data is collected over a two year period, i.e. 2006 to 2008.

Table 4.5 shows the median total net saving of all eligible employees was £93,100. The first and third quartile values show considerable variation in net savings, ranging from £31,600 or less, to £220,900 or more. When looking at the three key components, net property saving for all eligible employees has the highest median value of £47,900. Median private pension saving was lower, £17,300, with median net financial saving considerably lower at £2,100.

Overall, the first quartile of eligible employees do not have any private pension savings. This will be monitored in future reports to assess the impact of reforms. Net other property saving is zero at the first quartile, median and third quartile, showing that owning other properties saving is not held as a form of saving for the majority of eligible employees.

Table 4.5 Net savings for all eligible employees

£s

	Mean	10th percentile	25th percentile (1st quartile)	50th percentile (Median)	75th percentile (3rd quartile)	90th percentile
Private pension saving	89,300	0	0	17,300	88,300	250,800
Financial saving (net)	18,700	-5,800	-200	2,100	16,200	49,300
Property saving (net)	74,400	0	13,500	47,900	92,600	162,000
Main property saving (net)	60,700	0	9,300	43,500	84,000	140,000
Other property saving (net)	13,700	0	0	0	0	20,000
Total savings (net)	**182,500**	**900**	**31,600**	**93,100**	**220,900**	**441,500**

Source: DWP estimates derived from the ONS WAS, GB, 2006/08.

Notes:

1 Pension saving excludes accrued rights to state pensions and pensions in payment.

2 Financial saving excludes childrens assets and trusts.

3 These figures are for all individuals, including those with no savings.

4 Some financial savings and property tend to be held jointly by members of the same household. Such savings have therefore been split equally among the number of adults in the household.

4.4.2 Private pension saving[69]

Table 4.6 shows almost three quarters (72 per cent) of eligible employees had some level of pension saving. Median pension saving for all eligible employees still accumulating in 2006–08 was £17,300.

Looking at private pension saving (excluding those expected from a former spouse or partner) in detail, households can have both DB and DC types of pension saving. In 2006–08, 42 per cent of eligible employees had DB pension saving and 40 per cent had DC pension saving. Mean DB pension saving was £75,100, much higher than the equivalent for DC pensions which is £14,000. Likewise, the mean current DB pension saving (£67,500) for eligible employees is much higher compared to that for the current DC pensions (£4,900).

69 Estimates include pensions still accumulating. Pensions already being paid out are excluded from analysis.

Table 4.6 Private pension savings for all eligible employees

£s

	%	Mean	10th percentile	25th percentile (1st quartile)	50th percentile (Median)	75th percentile (3rd quartile)	90th percentile
DB pension saving, of which:	42	75,100	0	0	0	66,100	226,000
Current occupational DB pensions	37	67,500	0	0	0	54,100	206,100
Retained rights in DB pensions	8	7,700	0	0	0	0	0
DC pension saving, of which:	40	14,000	0	0	0	7,300	31,000
Current occupational DC pensions	17	4,900	0	0	0	0	5,700
Retained rights in DC pensions	9	1,900	0	0	0	0	0
Personal pensions	19	6,700	0	0	0	0	12,000
AVCs	2	400	0	0	0	0	0
Total private pension saving (excluding pensions in payment)	72	89,300	0	0	17,300	88,300	250,800

Source: DWP estimates derived from the ONS WAS, GB, 2006–08.

Notes:

1 Individual may appear in more than one category as individuals may have more than one type of pension.

2 DC pension saving also includes remaining value of pension funds for drawdown; results are not shown separately due to small sample size.

3 These figures are for all individuals, including those with no pension saving. The pension saving values at the lower end of the distribution are mostly zeroes.

4.4.3 Financial saving

Net financial saving for all eligible employees has been calculated by deducting any financial liabilities from financial assets. Table 4.7 shows the mean value of net financial saving was £18,700 and the median value of their net financial saving was £2,100.

Table 4.7 Financial savings for all eligible employees

							£s
	%	Mean	10th percentile	25th percentile (1st quartile)	50th percentile (Median)	75th percentile (3rd quartile)	90th percentile
Financial assets[1]	94	21,800	0	400	3,600	18,000	50,700
Financial liabilities[2]	51	3,200	0	0	0**	2,900	9,400
Net financial saving[3]	99*	18,700	-5,800	-200	2,100	16,200	49,300

Source: DWP estimates derived from the ONS WAS, GB, 2006–08.

Notes:

1 Financial assets include current accounts (excluding overdrawn accounts), savings accounts, ISAs, National Savings certificates and bonds, shares, insurance products, fixed term bonds, PEPs, employee shares and share options, unit/investment trusts and bonds/gilts.

2 Financial liabilities comprise overdrawn current accounts, non-mortgage borrowing and arrears on household bills. Non-mortgage borrowing comprises credit or store cards that are not settled in full each month, overdrafts and all forms of fixed-term loans. Arrears are defined as falling behind with household bills, mortgages or non-mortgage borrowing repayments.

3 **The median value for financial liabilities is a positive value which is expressed as zero in the table due to rounding.

4 Joint accounts were split equally among the number of adults in the household to calculate individual financial saving. *99 per cent estimate does not refer to net financial saving, but the 72 per cent of individuals with net assets and 27 per cent with net liabilities.

5 These figures are for all individuals, including those with no or negative financial savings.

4.4.4 Property saving

When defining the total net property saving, the most difficult decision on what to include and exclude concerns the main residence. When defining total wealth, the value of owner-occupied housing, along with other property wealth, would normally be included, as this gives a complete picture of the wealth held by individuals. However, individuals may not be willing or able to extract wealth from their main home. Therefore, for the purpose of evaluation net property saving has been split to show value of the householder's main residence and any additional property or properties owned (such as second homes and buy-to-let properties) separately.

Table 4.8 shows 82 per cent of eligible employees have net property savings. When disaggregating the property saving into main and other, 79 per cent had main net property saving and 14 per cent had other net property saving. The median net value of property saving, when including both main and other property, was £47,900. Caution is advised when interpreting the exact figures because respondents over-report the value of their property in the surveys. The point of reference is likely to be asking prices which they have seen advertised rather than 'sold prices', which reflect true market value.

Table 4.8 Property savings for all eligible employees

							£s
	%	Mean	10th percentile	25th percentile (1st quartile)	50th percentile (Median)	75th percentile (3rd quartile)	90th percentile
Main net property saving	79	60,700	0	9,300	43,500	84,000	140,000
Other net property saving	14	13,700	0	0	0	0	20,000
Total net property saving	82*	74,400	0	13,500	47,900	92,600	162,000

Source: DWP estimates derived from the ONS WAS, GB, 2006–08.

Notes:

1 Net property saving is calculated as the sum of the values for the main residence plus any other property, minus the value of mortgage liabilities and equity release.

2 Property savings held at household level were split equally among the number of adults in the household to calculate individual property saving.

3 These figures are for all individuals, including those with no property savings.

4 * Due to an element of double counting, the constituent property saving figures do not sum up to 82 per cent.

5 Understanding the wider context

Summary

- Just over a fifth (21 per cent) of private sector employers have some form of workplace pension that is open to members and only one in ten (ten per cent) of private sector employers provide an open scheme in which the employer makes a contribution.
- Nearly three-quarters (74 per cent) of all private sector employers thought that contributing a minimum of three per cent into the pensions of all eligible employees who did not opt out would increase total pension contributions.
- The most likely response to the increase in total contributions, indicated by almost half of employers would be to absorb costs through a reduction in profits (25 per cent) or as part of other overhead costs (22 per cent). However, around 17 per cent said they would absorb the increase through lower wage increases, 15 per cent through price increases and 12 per cent through workforce re-structure or reduction.
- Among employers who already offer a form of workplace pension in which at least some employees were participating, six in ten (60 per cent) planned to keep all current members of their largest or only scheme, in their existing scheme. Six per cent planned to enrol all current members into National Employment Savings Trust (NEST).
- For non-members and new employees, just under half (49 per cent) of pension providing employers said that they would use their existing scheme compared with 19 per cent who said they would use NEST. For those employers without a current scheme, almost half (45 per cent) indicated that they would enrol all employees into NEST.
- There is a declining trend in all types of private sector occupational pension schemes, both Defined Benefit (DB) and Defined Contribution (DC) with the exception of frozen schemes, which have on average doubled. In 2011 there were around 7,000 occupational DB schemes (down from around 7,500 in 2007) and around 45,000 DC schemes (down from around 52,000 in 2007).
- The number of non-employer sponsored personal pensions being contributed into has also declined over time from 7.0 million in 2006/07 to 5.6 million in 2010/11.
- Charge levels are on average 0.71 per cent for trust based schemes and 0.95 per cent for contract based schemes. Charge levels are lower for the largest schemes (1,000+ employees) at an average of 0.48 per cent for both trust based and contract based schemes.

5.1 Introduction

This chapter aims to understand the wider context and constraints in which the outcomes of the reforms are achieved. It considers the impact on employers, the pensions industry and landscape, as well as the wider economic impacts and any potential unintended consequences of the reforms. This chapter covers the following three evaluation questions from the Strategy[70]:

[70] DWP (2011). *Workplace Pension Reforms Evaluation Strategy*. DWP Research Report No. 764. At: http://statistics.dwp.gov.uk/asd/asd5/rports2011-2012/rrep764.pdf

To what extent is delivery of the Workplace Pension Reforms achieved with a minimal burden on employers? (EQ6)

How has the pensions industry reacted to the Workplace Pension Reforms? (EQ7)

What are the wider economic impacts of the Workplace Pension Reforms? (EQ8)

5.2 Impact on employers

The reforms are expected to have a larger impact on private sector employers, where provision and participation is much lower than in the public sector. Currently around a quarter (24 per cent) of private sector organisations have some form of workplace pension, with workplace provision being significantly higher amongst large and medium employers (50+ employees), with 86 per cent having some form of provision compared with only 13 per cent of micro employers (one to four employees). Overall, one fifth (21 per cent) of private sector organisations have some form of workplace pension that is open to members and only ten per cent of private sector employers (employing 62 per cent of employees) provide an open scheme in which the employer makes a contribution[71].

Delivering the reforms at a proportionate cost to employers is a key factor in assessing the impact of the reforms. Employer behaviour in responding to the reforms will help to identify the facilitators and barriers to successful implementation and highlight opportunities for improving the way the policy is delivered.

Employers' behaviour in responding to the reforms is likely to be based on several factors, including the prevailing economic climate and labour market at the time of making related decisions. So, while employer research has been important in informing the way the reforms are designed and implemented, for evaluation purposes employer response to the costs and regulatory burdens can only be used indicatively to predict how employers perceive they will respond, rather than forming a precise baseline. Future reports will monitor burden and costs incurred as a result of the duty, once employers develop a more informed view based on their experience of complying with the duty.

5.2.1 Administrative costs for employers

The Department estimates that the year one set up costs to employers will be around £480 million, with ongoing administrative costs of around £150 million per year[72]. Future reports will monitor the actual administrative costs by employer size, once employers have developed a more informed view of set up costs and ongoing administrative costs based on their experience.

5.2.2 Contribution costs for employers

The scale of additional contribution costs for employers complying will depend partly on the employers' experience of pension provision. While there is a risk that some employers may level down[73] to manage the additional contribution costs, employer research suggests that over 90 per cent of those who make contributions of three per cent or more into the largest scheme would not change their scheme or reduce contribution levels for existing members[74].

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71 Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP.

72 Total administrative costs vary by employer size. The estimates shown are the total administrative costs for all employers in the first year at the end of staging, and the total ongoing costs for all employers.

73 Levelling down is when employers reduce their pension contributions for existing members, see Chapter 4.

74 Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP.

The Department's analysis suggests that the additional employer cost, based on minimum employer contributions, will be £4.0 billion per year, within a range of £2.9 to £4.4 billion once contributions are fully phased in (in 2012/13 earnings terms). Future reports will monitor actual contribution costs, including employers contributing above the minimum.

5.2.3 Employer responses to the reforms

Employer readiness to deal with the administration associated with the reforms, depended in part, on employers existing knowledge and experience in dealing with pension schemes. Employer research suggests employers think they will need to make significant changes to their administrative procedures and that the likely increase in administration costs would stem from three main areas: selecting a scheme, communicating with employees and setting up/running the scheme[75].

More recent research[76] shows that nearly three-quarters (74 per cent) of all private sector employers thought that contributing three per cent into the pensions of all eligible employees who did not opt out would increase total pension contributions. Four-fifths (82 per cent) of employees worked for employers who thought total pension contributions were likely to increase as a result of the reforms.

All employers were asked the most likely response to an increase in total pension contributions. Overall responses remained stable and consistent with the 2009 research. One quarter (25 per cent) of employers said their most likely response would be to absorb the increase in costs through a reduction in profits, while just over one-fifth (22 per cent) said they would absorb this as part of other overheads. Around one-sixth (17 per cent) of employers said they would absorb the increase through lower wage increases, or through increasing prices (15 per cent). Around one in ten (12 per cent) said their most likely action would be to restructure or reduce their existing workforce.

There is a risk that some employers may level down contributions for existing members to the minimum causing a reduction in some employees' pension provision (see Chapter 4). The employer research shows that very few employers indicated that they would change their existing scheme or reduce contribution levels for existing members (two per cent and one per cent respectively)[77].

5.2.4 Employer decisions

The decisions employers make around their choice of qualifying scheme (e.g. pension scheme for non-members/new members) and level of contribution (e.g. levels for existing members, non members, new employees) will be important indicators of the success of the reforms.

Recent evidence[78] shows that among employers who already offer a form of workplace pension in which at least some employees were participating, six in ten (60 per cent) planned to keep all current members (of their largest or only scheme) in their existing scheme. Only six per cent planned to enrol all current members into NEST.

Just under half (49 per cent) of these pension providing employers said that they would use their existing scheme for all non-members and new employees. NEST was a more popular option for enrolling all non-members and new employees, with 19 per cent saying they would use such a scheme.

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75 Wood, A. *et al.* (2010). *Consultation on: Workplace Pension Reform – Completing the Picture. Qualitative research with small and medium-sized companies*. DWP Research Report No. 636. At: http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep636.pdf

76 Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP.

77 Forth, J. and Stokes, L. (2012). Ibid. These proportions stood at eight per cent and three per cent respectively when calculated solely amongst those employers with a workplace pension.

78 Forth, J. and Stokes, L. (2012). Ibid.

Meanwhile, almost half (45 per cent) of employers with no current workplace pension scheme indicated that they would enrol all employees into NEST. A further two-fifths (39 per cent) did not know what type of scheme they were likely to use in order to meet the duties.

In terms of contributions, indicative evidence[79] from the intentions expressed by private sector employers suggests at least ten per cent of employees will receive a contribution of over six per cent, at least 16 per cent will receive between 3.1 and 6.0 per cent and at least 40 per cent will receive the minimum contribution of 3.0 per cent of salary.

5.2.5 Employer views and attitudes to the level of regulatory burden

Employer research in 2011[80] indicated that employers perceive that the reforms will place a regulatory burden on them. However, around half (51 per cent) of employers had not thought about the reforms at all. This was much more prevalent in micro employers (one to four employees) of which just over half (56 per cent) had not thought about the reforms at all. In contrast this applied to just one per cent of employers with 500 or more employees.

Almost two-fifths (37 per cent) of employers had thought about the reforms but not done anything about them. Around one in ten (eight per cent) had held informal discussions, while three per cent had put a plan in place to comply with the reforms. Larger employers were more likely to have put a plan in place; this applied for almost two-fifths (37 per cent) of employers with 1,000 or more employees. One-quarter of employees worked for an employer that had a plan in place to comply with the reforms; one-sixth (16 per cent) worked for an employer that had not thought about the reforms at all.

Employers who had not provided pensions before (or who were providing less than the minimum three per cent) were more concerned about the regulatory burdens of providing pensions for their employees. In particular, micro employers felt they were likely to struggle to cope with the requirements of the duties.

Evaluating the reforms will require the identification of costs and burdens once employers have developed a more informed view. This will be based on their experience of participation, a fuller understanding of the processes involved and how long it takes.

5.3 Reaction of the pensions industry

While the vast majority of employees work for an employer who provides a pension, they may not be able to access one because some schemes are currently closed to new members and some open schemes have eligibility rules which restrict access to certain types of employee. Employer research showed that only ten per cent of private sector employers (employing 62 per cent of employees) provide an open workplace pension in which the employer makes a contribution[81].

79 Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP. Each estimate is a lower-bound since employers did not provide an expected contribution rate for around one-third (34 per cent) of all private sector employees.

80 Forth, J. and Stokes, L. (2012). Ibid; Bewley, H. and Forth, J. (2010). *Employers' attitudes and likely reactions to the workplace pension reforms 2009*. DWP Research Report No. 683; Wood, A. *et al.* (2010). *Consultation on: Workplace Pension Reform – Completing the Picture. Qualitative research with small and medium-sized companies*. DWP Research Report No. 636.

81 Forth, J. and Stokes, L. (2012). *Employer Pension Provision Survey 2011*. DWP.

The reforms will therefore have a major impact on the pensions industry. While analysis to date suggests the impact to be positive, the precise effect will vary, and it may not be possible to directly attribute these impacts to the reforms[82]. Subsequent analysis showing the impact of the reforms will need to take account of existing trends that are affecting the industry already, for example the decline in DB schemes which has been in evidence since the late 1960s[83].

5.3.1 The pensions landscape

To capture changes in private and occupational pension scheme provision the following trends will be monitored: the number of schemes; the market share of active pension providers; membership of schemes; average contribution levels; and type of employer pensions are sold to.

DB, DC (i.e. trust based), Group Pensions (i.e. contract based) and non-employer sponsored Personal Pensions will be examined separately as in many cases information for each of these pension types is obtained from different sources. In future reports, the evaluation will aim to understand how industry attributes these changes to NEST, the wider reforms and other factors.

5.3.2 Number of schemes and market share of active pension providers

Trends in the number of schemes will be monitored using the ONS Occupational Pension Scheme Survey (OPSS), the regulator's Purple Book and DC Trust. While a direct comparison between the sources is not possible, the OPSS estimates compare closely with the Purple Book and DC Trust. The OPSS data in Table 5.1 shows a declining trend in all types of private sector occupational pension schemes (both DB and DC) with the exception of frozen schemes, which have on average doubled. These trends are expected to continue into the future, regardless of the new employer pension duties.

Table 5.1 Number of DB and DC schemes, 2007–2011

Number

	OPSS										
Year	**Open DB**	**Closed DB**	**Frozen DB**	**Winding up DB**	**Open DC**	**Closed DC**	**Frozen DC**	**Winding up DC**	**Total**	**Purple Book DB**	**DC Trust**
2007	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	57,010	7,500	51,890
2008	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	54,110	7,300	49,124
2009	2,180	4,690	1,740	1,690	22,500	11,630	2,260	1,420	48,110	7,200	46,346
2010	1,480	4,000	3,320	770	19,900	8,850	5,040	480	43,850	7,000	44,984
2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	6,920	44,417

Source: Occupational Pension Scheme Survey, TPR/PPF Purple Book and information supplied by The Pension Regulator. Data is as at 1 January and excludes hybrid schemes. Some of the information provided by TPR is published in DC Trust.

The Department, in conjunction with the regulator and the Financial Services Authority (FSA), will continue to monitor changes in the nature and distribution of pension provision to understand the impact of the reforms on the pensions market.

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82 It is not possible to formulate a robust industry level counterfactual (a view of the pension landscape in which the reforms were not implemented).

83 Pensions Policy Institute (2012). *The changing landscape of pension schemes in the private sector in the UK.* Report shows the number of individuals saving in DB schemes has fallen from eight million in 1967 to 1.6 million in 2011.

5.3.3 Membership and average contribution levels in non-employer sponsored schemes

Data on employer sponsored schemes is set out in Chapter 3 and Chapter 4. Table 5.2 shows the number of active non-employer sponsored schemes and the average contribution over time. Overall the number of active schemes has gradually declined over time from 7.0 million to 5.6 million between 2006/07 to 2010/11. The average contribution remains broadly stable over the same period, standing at £1,624 in 2010/11.

Table 5.2 Number of non-employer sponsored pension schemes being contributed into and the average contribution, 2006/07 to 2010/11

	Personal Pension		Stakeholder Pension		All	
Year	**Number (000s)**	**Average Contribution £s**	**Number (000s)**	**Average Contribution £s**	**Number (000s)**	**Average Contribution £s**
2006/07	6,120	£1,574	850	£2,047	6,970	£1,631
2007/08	5,940	£1,758	870	£2,241	6,810	£1,819
2008/09	5,590	£1,678	890	£1,933	6,480	£1,713
2009/10	5,310	£1,565	850	£1,953	6,160	£1,619
2010/11	4,870	£1,542	740	£2,162	5,610	£1,624

Source: HMRC Table Pen2 (previously Tables 7.4 and 7.5).

Notes:

1 Includes employer and individual contributions, tax relief paid to pension schemes and minimum contributions received by members who have contracted out of the state second pension.

2 The HMRC tables report on the number of contracts rather than number of individuals which is consistent with ASHE. While HMRC tables are not published by salary band, the data from ASHE can be presented on a consistent basis to the HMRC data.

5.3.4 Provision of good employer sponsored workplace DC schemes

In addition to delivering the Employer Compliance Regime, the regulator is responsible for ensuring that those providing workplace pensions supply safe, durable and value for money schemes. This will allow employers to choose schemes most suited to their circumstances and one in which employees have confidence.

The regulator will support the market in delivering good outcomes for members of DC schemes, only intervening where the market appears unlikely to deliver good outcomes to members. To support this approach the regulator has announced six principles (supported by key features) for DC schemes. These are outlined in Box 5.1:

Box 5.1 – Six principles for DC schemes

1 Schemes are designed to be durable, fair and deliver good outcomes for members.

2 A comprehensive scheme governance framework is established at set-up, with clear accountabilities and responsibilities agreed and made transparent.

3 Those who are accountable for scheme decisions and activity understand their duties and are fit and proper to carry them out.

4 Schemes benefit from effective governance and monitoring through their full lifecycle.

5 Schemes are well-administered with timely, accurate and comprehensive processes and records.

6 Communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings.

The regulator has segmented the existing market by scheme size and type[84] so that it can target activity on those segments where the risk is greater than schemes that will not deliver good outcomes for members.

To monitor the application of these principles, the regulator will continually assess the market, looking at trends in the pensions landscape and identifying emerging risks. It will also aim to develop a framework to quantify risk and establish indicators through which to monitor effectiveness of its interventions, specifically the extent and speed at which the principles are adopted. The regulator is also reviewing the regulatory framework for maintaining the flow of contributions ahead of the introduction of automatic enrolment and aims to establish clear accountabilities for achieving good member outcomes.

5.4 Charge structures

The introduction of the reforms may result in changes to the prevailing charge structures and levels. In particular, it will be of interest to understand if any changes can be attributed to the reforms, NEST, or other external factors such as the Retail Distribution Review[85], which will change the methods by which charges can be taken after December 2012.

Trust based DC schemes and contract based Group Pensions[86] schemes will be monitored separately. In addition, future reports will look at both the average charge and the distribution of charges where feasible.

Table 5.3 shows the latest annual management charge levels for both trust based and contract based schemes. Overall, charge levels are on average 0.71 per cent for trust based schemes and 0.95 per cent for contract based schemes. Charge levels are lower for the largest schemes (1,000+ employees) charging 0.48 per cent on average for both trust based and contract based schemes.

84 *Delivering successful automatic enrolment – The Pensions Regulator's approach to the regulation of employers and schemes*. At: http://www.thepensionsregulator.gov.uk/docs/delivering-successful-automatic-enrolment.pdf

85 See FSA at: http://www.fsa.gov.uk/pages/About/What/rdr/index.shtml

86 There are also Group Stakeholder Pensions and Group Self-Invested Personal Pensions which are very similar to Group Personal Pensions.

Table 5.3 Average Annual Management Charges in trust and contract based schemes

	Scheme size			
	12-99	**100-999**	**1,000+**	**All**
Trust based schemes	0.82%	0.66%	0.48%	0.71%
Contract based schemes	1.06%*	0.82%	0.48%	0.95%

Source: Pension Landscape and Charges Survey, 2011: Summary of research findings.

Base: All trust based/contract based schemes where members pay charge as a percentage of fund.

Since some employers will choose to use an intermediary for advice about pensions, charges both with and without intermediary charges will be explored, ideally on a consistent basis over time[87].

There is expected to be some variation in the way charges are levied over time, which may lead to difficulty in making direct comparisons. In particular the Retail Distribution Review which may lead to a significant change to the methods of charging in coming years. There is also a growth in unbundled pensions[88] which may be the start of a general move away from the model whereby the fund, platform and advice charges are bundled together into a single annual charge.

5.5 Wider impacts of the reforms

Over time, the evaluation will aim to capture the wider macroeconomic impacts of the reforms and the impact on other policy areas. These could potentially include:

- costs/benefits to the Exchequer[89];
- barriers to saving;
- the labour market;
- prices inflation;
- savings, investment and growth;
- student fees;
- effect of no early access on opt out levels;
- employer use of salary exchange;
- short service refunds.

87 This may be challenging if methods of charging change. For example, in the 1980s and 1990s it was common for charges to be heavily front-loaded, to match the costs incurred by industry as a pension plan is set-up. Such a design is much less common in modern pensions. The FSA disclosure survey shows a general reduction in personal pension charge levels between 1995 and 2002, particularly in 2000 following the introduction of Stakeholder pensions. See Pensions Commission ‘Pensions: Challenges and Choice, The First Report of the Pensions Commission, 2004’ for further details.

88 In an unbundled pension, fund charges, platform charges and advice charges are charged separately.

89 The impact on tax relief is covered in Chapter 4: Increasing the amount of savings.

6 Long-term impact of the reforms

Summary

- This chapter uses the Department's Pensim2 model to estimate the impact of the reforms, over and above what would have occurred had the policy never happened. It highlights the sensitivity of the reforms to changes in the economy, labour market and pension participation and uses high and low scenarios to capture the range of uncertainty around projections. For each scenario, a single assumption has been varied while all other variables have been kept the same (see Table 6.2).
- The high and low scenarios for pension participation range between 63 per cent and 86 per cent with the reforms, and between 32 per cent and 51 per cent without the reforms. The wide range reflects the difficulty in quantifying behavioural changes.
- Labour market movement has a significant effect on the mean number of pension episodes, which increase from around 3.0 episodes without the reforms to around 6.0 episodes with the reforms. When looking at Defined Contribution (DC) only pensions episodes, the mean number increases from around 2.0 episodes without the reforms to around 3.4 episodes with the reforms. This reflects individuals being automatically enrolled as they move within the labour market, resulting in more pensions episodes.
- While the reforms increase the mean number of small pension pots from around 0.5 per individual without the reforms to around 0.8 small pots per individual with the reforms, the impact is small and is mainly driven by pension participation assumptions.
- Fund growth and average earnings growth will have a significant impact on private pension income. For fund growth, median weekly private pension income ranges from £87 to £138 without the reforms and ranges from £143 to £251 with the reforms. For average earnings growth, median weekly private pension income ranges from £101 to £116 without the reforms and ranges from £174 to £199 with the reforms.
- Analysis using combinations of extreme high and low scenarios shows that the reforms could increase median weekly private pension income from anywhere between £20 and £270 per week by 2070.
- While individuals will benefit from moving income from when they are earning to periods like retirement when they are not, the analysis shows that it is not until the late 2030s that there starts to be a noticeable effect on aggregate median weekly private pension income as a result of the reforms.

6.1 Introduction

A view of what the pension landscape would have looked like if the reforms had never happened is needed to understand the long-term effects of the reforms. It is not enough to simply compare pension incomes before and after the reforms. The trends in pension participation, economic growth and a variety of other factors need to be accounted for.

This chapter establishes two versions of the pension landscape, the counterfactual, a view of the pension landscape if the workplace pension reforms had not been implemented, which will be referred to as '**without the reforms**' and a view of the pension landscape with the workplace pension reforms, which will be referred to as '**with the reforms**'.

The counterfactual controls for trends in a variety of factors that may affect pension incomes. In the absence of existing data on which to establish the counterfactual, the counterfactual is established by projecting current trends and modelling the effect of the interactions between these trends on pension participation and income[90].

6.2 Methodology

6.2.1 Background

Pensim2, the Department's dynamic micro-simulation model, has been used to establish the pension landscape both with and without the reforms. The model is based on a fused dataset, which is projected forward using a combination of assumptions, probabilities, and logistic regressions, which all determine the behaviour of individuals throughout the model[91]. These assumptions are driven primarily on the analysis of historical data, with economic forecasts driven by assumptions from the Office for Budget Responsibility, HM Treasury's external forecasts and the Department's benefit forecasting division. These assumptions do not include cyclical effects in the economy, and as such, should only be treated as scenarios with and without the reforms, rather than as forecasts.

The long-term impact has been modelled at the individual level. Individual behaviour is determined by random numbers being either greater or less than the probability of an event occurring. Therefore, if the model was run twice, using the same assumptions, but a different set of random numbers, the outputs between each run would vary slightly. In both versions of the model, the random numbers have been kept the same, so that any differences can be attributed purely to the effect of the reforms[92].

Figure 6.1 shows a case study to illustrate how the model works, where an individual moves through the labour market and the differences in pension membership are due to the reforms[93].

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90 As part of the evaluation of the reforms, information such as pension participation and contribution levels will be collected. This will allow the analysis in this chapter to be updated in future reports.

91 The modelled population grows in line with the population projections published by the Office for National Statistics (ONS). Due to the lack of reliable data on the level of existing pension saving of immigrants entering the UK labour force, this analysis assumes that there is no migration, and that the only population change is a result of births and deaths. Principal population projections have only been used here; using other variants would have significant policy and economic impacts which are beyond the scope of the analysis.

92 To ensure the random number is not an outlier that produces abnormal results, the model has been run five times using different random number and the variance has been examined.

93 Pensim2 does not model for re-enrolment which will occur every three years.

Figure 6.1 Simulated behaviour and outcomes of an individual with and without the reforms

WITH REFORMS	Sally enters the labour market aged 22, and is automatically enrolled into a pension scheme, but opts out because her earnings are low. **Result – no saving.**	Sally moves jobs aged 27, and is automatically enrolled into a pension scheme, and remains saving. **Result – active member saving.**	Sally moves jobs again aged 33, and is automatically enrolled into a pension scheme, and remains saving. **Result – active member.**
WITHOUT REFORMS	Sally enters the labour market aged 22, but is **not** automatically enrolled into a pension scheme. **Result – no saving.**	Sally moves jobs aged 27, but is **not** automatically enrolled into a pension scheme. **Result – no saving.**	Sally moves jobs again aged 33, and **actively joins** her employer's pension scheme. **Result – active member**

6.2.2 Policy changes

Where possible, forthcoming policy changes have been included in both with and without the reforms versions of the model to enable any differences to be attributed solely to the effects of the reforms. Table 6.1 lists the most influential policy effects on pension outcomes and whether they are included in this analysis. Policies that are still in development or where the likely effects on pension membership have yet to be established, have been excluded.

Table 6.1 Policy effects that have been considered for analysis

Policy	Description	Included in analysis
Abolition of contracting-out of DC schemes	From April 2012, employees can no longer contract-out of their state second pension contributions into a DC scheme.	Yes
Equalisation and raising of State Pension Age	Current policy is that the pension age will rise to 67 for men and women from April 2008.	Yes
State pension reform	Department for Work and Pensions (DWP) published a green paper on proposed changes to the state pension, where the earnings link for state second pension will be abolished and all individuals will receive the same flat rate of state pension, provided that the individual has made enough qualifying years of National Insurance contributions.	No – policy still in development
Universal credit[1]	Universal credit will be phased in from 2014. The design of this benefit, which will replace most of the working-age means-tested benefits, may have secondary effects on employment, pension membership and contributions.	No – policy still in development
Public sector pensions reform	While negotiations with Trade Unions on some aspects of public sector pensions are still continuing, the Government proposes that new accruals to public sector schemes will move from a final-salary basis to a career-average basis.	No
National Employment Savings Trust (NEST)	It is possible to conceive of a world where NEST did exist, but automatic enrolment policy does not. However, because NEST was conceived as integral to the reform, it has been assumed that NEST does not exist without the reforms.	Yes – no NEST in 'without the reforms', but NEST exists in 'with the reforms'
Tuition fees, and repayment of student loans	Stakeholders raised the move to higher tuitions fees as a potential risk to pension saving, with graduates choosing to pay off their student loans rather than save into a pension. While this is a risk, there is not yet any evidence on the likelihood and potential impact of this occurring.	No – insufficient evidence

1 Pension contributions are currently disregarded from entitlement calculations for Tax Credits and income-related benefits such as Income Support, Council Tax Benefit, Housing Benefit and Income-based Jobseeker's Allowance. This will need to be reviewed once Universal Credit has been finalised.

6.2.3 Key assumptions

To capture the range of uncertainty and sensitivity around projecting up to the year 2100, analysis of key assumptions is based on high and low scenarios.

Most of the high and low assumptions used are identical in both versions of the model to attribute any differences to the effect of the reforms. There will, however be situations where the key assumptions differ, since it would be unreasonable to expect these to remain the same following the reforms. For example, the reforms will introduce a minimum pension contribution; while without the reforms there will continue to be a floor of no minimum pension contributions.

Table 6.2 lists the high and low assumptions that have been used. In the analysis presented in section 6.3, long-term outcomes have been estimated by manipulating a single assumption, such as average earnings growth, to produce a high and low scenario for with and without the reforms versions of the model. In each scenario, there is an implicit principal estimate for all other assumptions and in most cases, the principal projection falls midway between the high and low assumptions.

Table 6.2 List of high and low assumptions with and without the reforms

Assumption	Without the reforms	With the reforms
Earnings growth	Fixed. Low assumption at 4.2 per cent and high assumption 5.2 per cent per year.	Same as without the reforms.
Job churn	Range. ±70 per cent of original probability of moving job. For example, if an individual originally had a 10 per cent probability of moving job, their new probability ranges between 3 and 17 per cent.	Same as without the reforms.
Employment	Fixed. Uses upper and lower quartile of HMT external projections, and held constant from 2015.	Same as without the reforms.
Public sector	Fixed. High assumption driven by historical peak of share of public sector employment and low assumption driven by OBR projections, and held constant.	Same as without the reforms.
Annuities	Range. High assumption that flat annuity rates at 65, 6.5 per cent for males and 6.2 per cent for females in 2050. Low assumption that annuities vary by age and uprating, 5.9 per cent for males and 5.6 per cent for females. The spread between the high and low assumptions remains constant.	Same as without the reforms.
Inflation	Fixed. Low assumption of 1 per cent CPI and high assumption of 3 per cent CPI. CPI to RPI ratio remains constant.	Same as without the reforms.
Contribution rates	Range. Average employee contribution range between 4 and 5 per cent. Average employer contribution range between 6 and 7 per cent. Range. Low assumption that all contributions are at minimum level. High assumption that average contribution of 5 and 7 per cent for employees and employers respectively. No contributions are below the minimum rate.	Range. Low assumption that contributions are at minimum level. High assumption that average contribution is five per cent for employees and seven per cent for employers. No contributions are below the minimum rate.
Fund growth	Fixed. Low assumption of 4.8 per cent and high assumption of 8.8 per cent per year.	Fixed. Slightly reduced fund growth for NEST.
Participation	Fixed. High assumption that current participation rate remain constant. Low assumption that decreasing trend continues to 2026, and then holds level constant.	Fixed. High assumption that 20 per cent of individuals opt out. Low assumption that 48 per cent of individuals opt out (from DWP Individual Attitudes Survey, 2009).

Note: Fixed indicates the low/high assumptions are fixed at the specified rates shown. Range indicates the low/high assumptions may vary within the range of values shown.

Each of the scenarios in Table 6.2 manipulates a single assumption to view the effect on pension incomes with and without automatic enrolment. However, in reality, it is highly unlikely that a single variable will vary from the principal projections, whilst other variables will remain the same. Therefore, it is possible to construct extreme high and extreme low scenarios to reflect what would happen if a combination of events occurred. The assumptions have been made to ensure they do not contradict one another. Descriptions of these extreme scenarios are given in Table 6.3. A summary of the analysis using these assumptions is shown in 6.3.6.

Table 6.3 Extreme high and low scenarios

Low	High
Without reforms	
This scenario assumes a low trend in economic growth. Low economic growth leads to depressed earnings growth, and a relatively low employment rate. Low employment rates also imply lesser job security, meaning that individuals churn through jobs more frequently. The fall in real incomes leads to a decrease in pension participation rates and contributions, while the poor performance of the general economy means that rates of fund growth in DC schemes are also low.	In this scenario, the economy quickly recovers, and the long-term trend in economic growth is strong. Strong growth leads to increased average earnings and strong real earnings growth. The high level of earnings growth means that private pension participation rates increase and contributions to private pensions is also high. Fund growth in private pensions is strong and employment remains high, with more stability in the labour market.
With reforms	
Automatic enrolment ensures that participation and contribution rates to private pension is increased, but a poor trend economic growth means that earnings and real incomes are low, leading to lower than expected participation and contribution rates. Like in the counterfactual, overall levels of employment are low, meaning that the impact of auto-enrolment is diminished.	Strong economic performance exacerbates the impact of auto-enrolment, leading to strong real earnings growth and higher than expected participation rates and contributions. Employment rates remain high, with fewer individuals moving between jobs. The high level of contributions to private pensions, and strong economic growth means that returns on investments are high.

6.3 Findings

This analysis sets out key measures of individual levels of saving and pension income in terms of individual behaviour in the accumulation stage at first, when contributing to a pension and later in the decumulation stage, when converting pension savings into retirement income. This analysis has been structured to represent an individual's journey through the labour market and later into retirement.

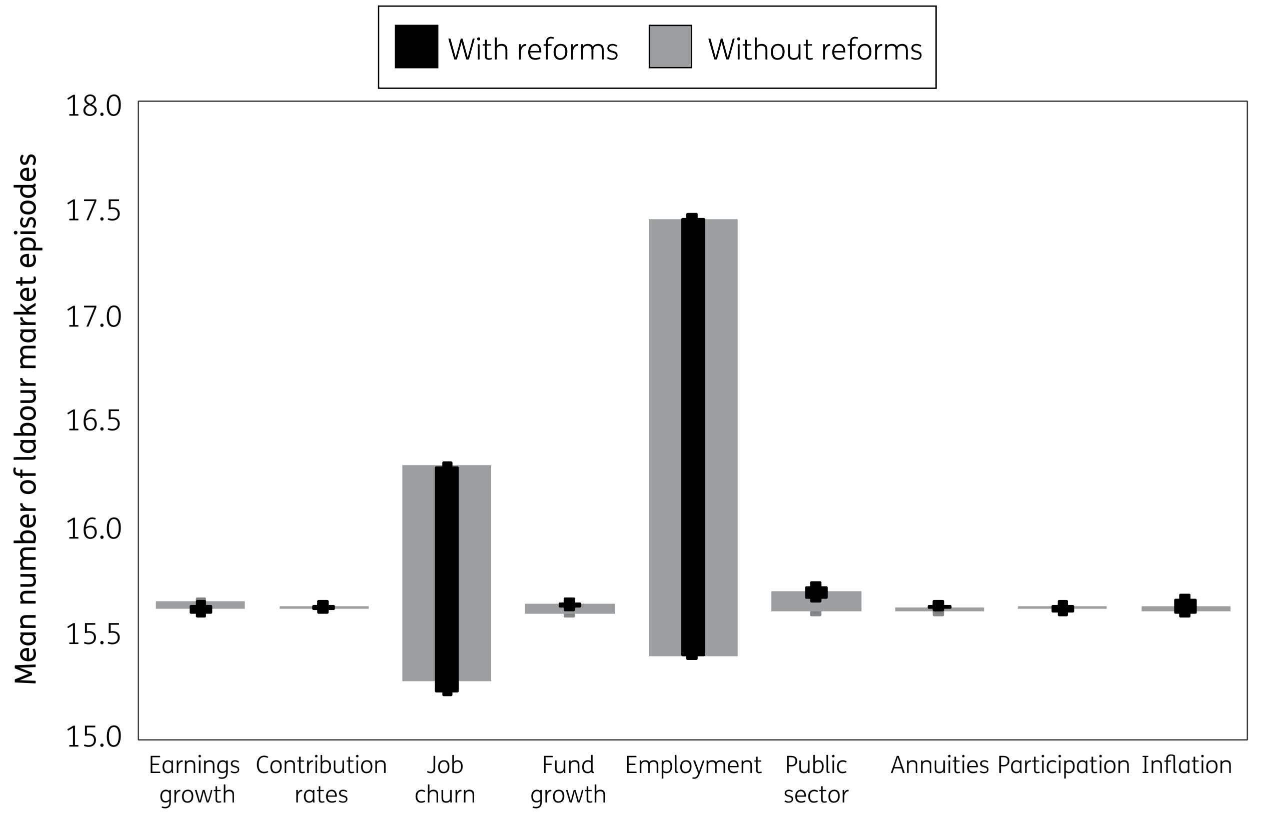
6.3.1 Labour market movement

For each key assumption, Figure 6.2 shows the mean high and low number of labour market episodes (i.e. periods of employment in the same job, self-employment, unemployment or economic inactivity) for individuals retiring from 2070[94] to 2100. This is expected to be similar both with and without the reforms. Labour market spells (and the subsequent saving behaviour) are largely influenced by the level of employment, and, related to this, the amount of churn through jobs rather than the reforms.

94 Since Pensim2 does not simulate labour market episodes backwards, it is not possible to accurately estimate full labour market episodes for individuals retiring in the early years of the simulation. The mean is, therefore, taken between 2070 and 2100. If the mean number of labour market episodes was back-simulated, it would be expected to be similar to those in Figure 6.1.

In Figure 6.2 (and similar figures) both grey and black bars represent the mean number of labour market episodes arising from each of the high and low assumptions. The grey bars represent these figures without the reforms while the black bars represent these figures with the reforms. For example, the fifth column in Figure 6.2 (employment) shows that if there is high unemployment, then we would expect individuals to have a mean of 17.5 labour market episodes, but if unemployment is lower, this will decrease to a mean of 15.4 labour market episodes. The overlapping grey and black bars illustrate that the reforms have no effect on the mean number of labour market episodes in this case.

Figure 6.2 Mean number of labour market episodes from high and low scenarios at retirement

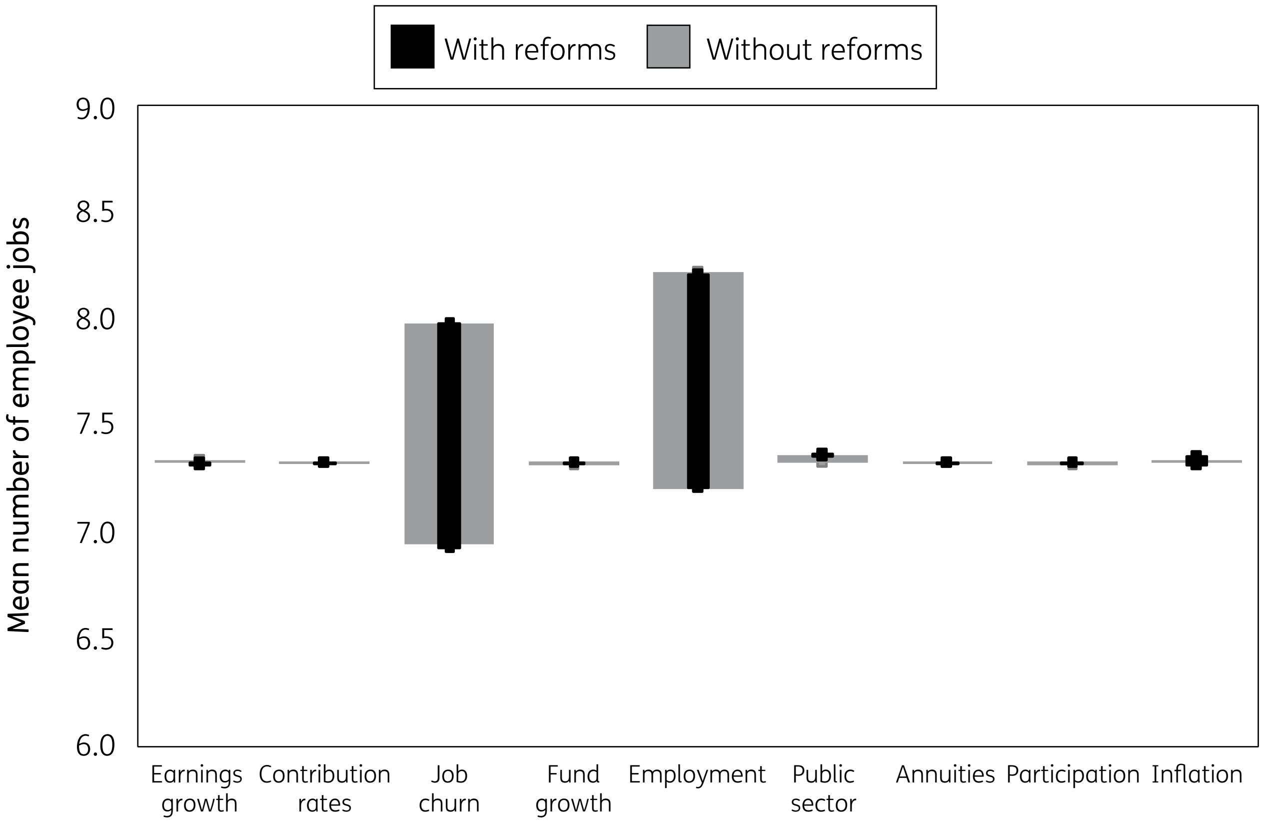


Source: DWP estimates derived from the Pensim2 model, 2070–2100.
Note on interpreting the chart: the length of each bar represents the range of mean number of labour market episodes. Bar widths are different to illustrate the overlap between 'With reforms' and 'Without reforms'.

Looking specifically at those in employment, Figure 6.3 shows the mean high and low number of employee jobs for individuals over the same period. The mean number of employee jobs[95] spells is important because this determines whether an individual is automatically enrolled into a workplace pension scheme or not. Again, the reforms do not influence the mean number of spells in employment (around 7.3 in the principal scenario) and the employment spells are largely influenced by conditions in the labour market and the level of churn. When evaluating the long-term effects of the reforms, conditions in the labour market must be considered alongside pension participation as an explanation for any changes in an individual's private pension income.

95 Here employee jobs only are counted and those working in self-employment are excluded.

Figure 6.3 Mean number of employee jobs arising from high and low scenarios at retirement

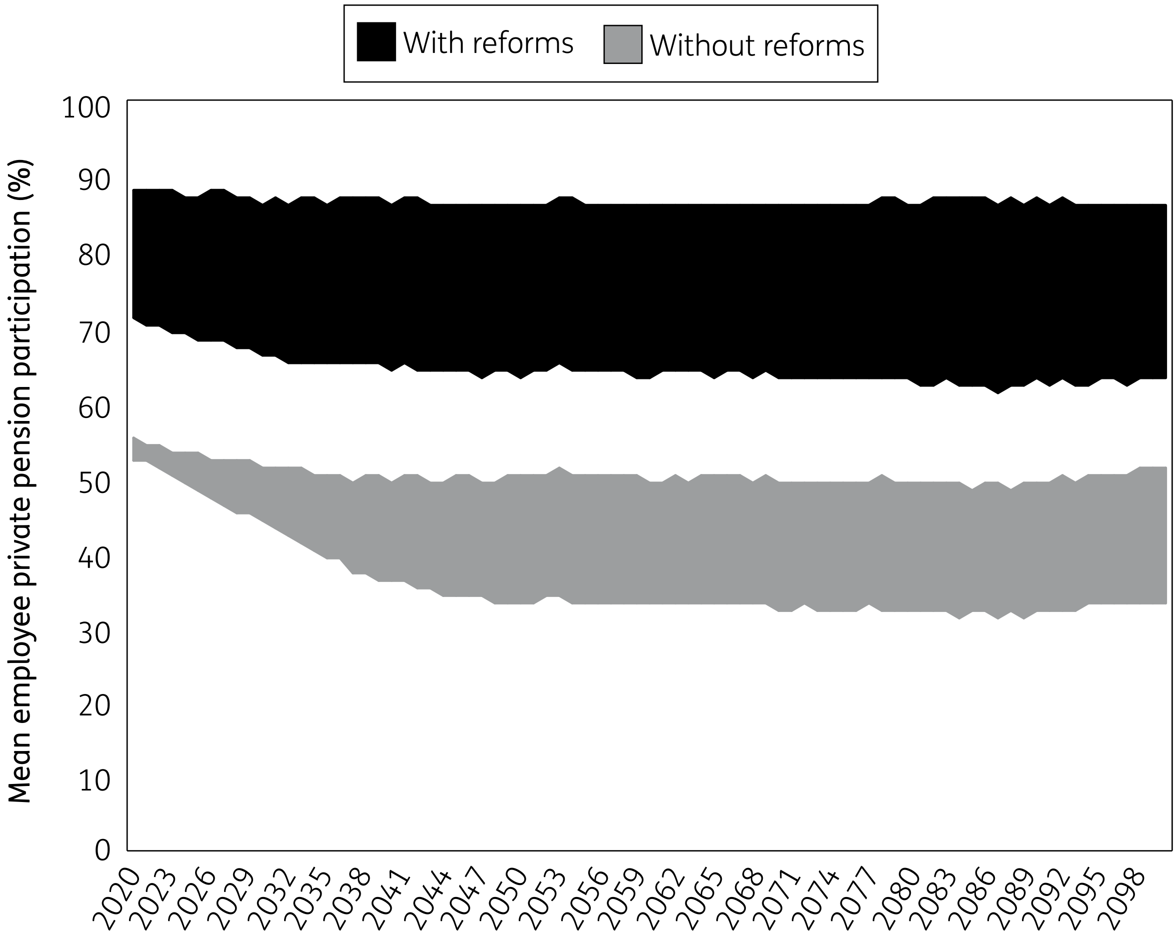


Source: DWP estimates derived from the Pensim2 model, 2070–2100.
Note on interpreting the chart: the length of each bar represents the range of mean number of employee jobs. Bar widths are different to illustrate the overlap between 'With reforms' and 'Without reforms'.

6.3.2 Pension participation

Overall, pension participation is governed by a variety of factors, most of which are behavioural in nature and therefore difficult to quantify. Figure 6.4 shows high and low participation scenarios from 2020 to 2100, based on DWP individual research on expected levels of opt out (see Chapter 3). While the reforms are likely to increase pension participation, eventual participation levels remains uncertain. Overall, our high and low scenarios for pension participation range between 63 per cent and 86 per cent with the reforms and between 32 per cent and 51 per cent without the reforms.

Figure 6.4 High and low workplace pension participation scenarios



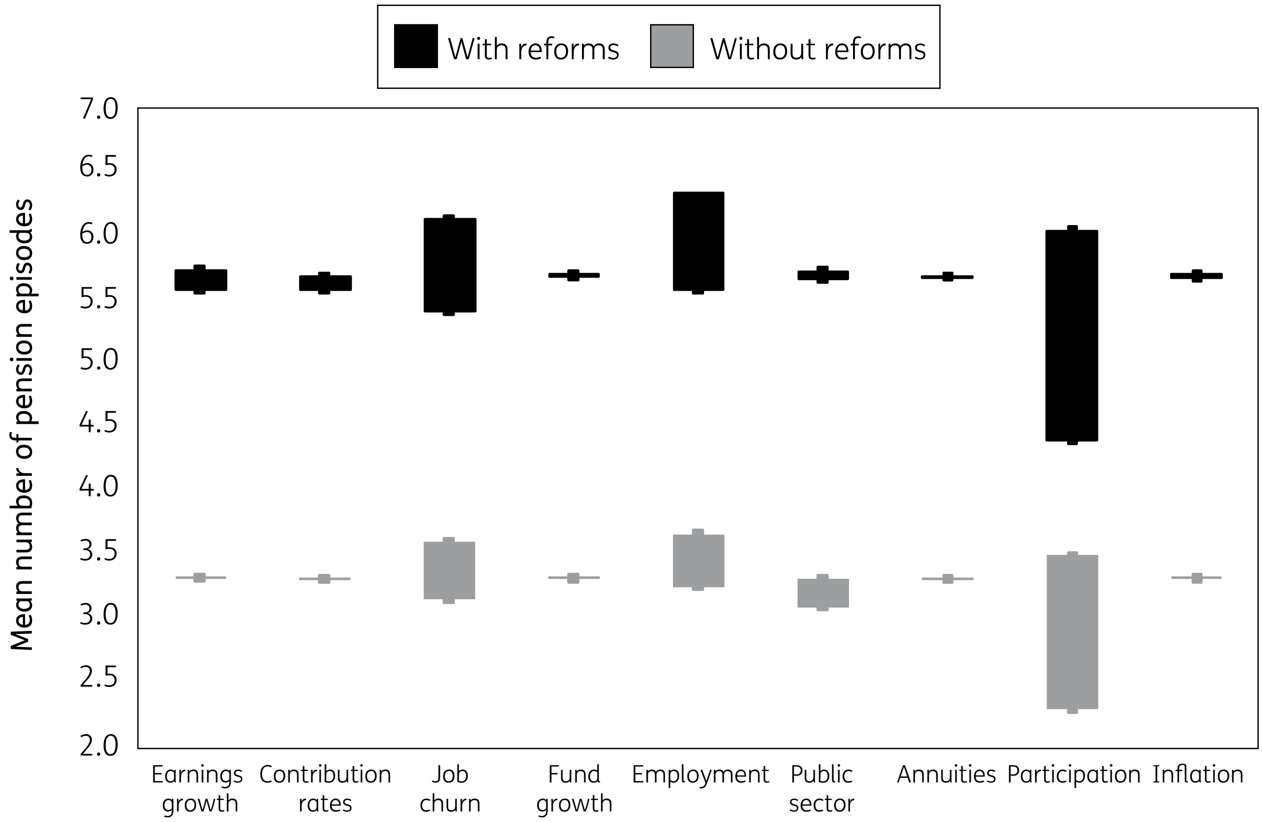
Source: DWP estimates derived from the Pensim2 model, 2020–2100.

6.3.3 Pension episodes

Individual pension episodes are driven by a combination of an individual's labour market history and pension participation. As with labour market movement, the mean number of pension episodes is defined as the number of separate spells in pension saving. These spells may be within the same scheme, but split by separate spells in employment.

Figure 6.5 shows the mean high and low number of pension episodes for individuals retiring from 2070 to 2100 for each assumption. Labour market movement has a significant effect on the mean number of pension episodes which increase from a principal of around 3.0 pension episodes without the reforms to a principal of around 6.0 pension episodes with the reforms. This reflects individuals being automatically enrolled as they move within the labour market, resulting in more pension episodes.

Figure 6.5 Mean number of pension episodes arising from high and low scenarios at retirement



Source: DWP estimates derived from the Pensim2 model, 2070–2100.
Note on interpreting the chart: the length of each bar represents the range of mean number of pension episodes. In contrast with Figures 6.2 and 6.3, bar widths are the same because there is no overlap between 'With reforms' and 'Without reforms'.

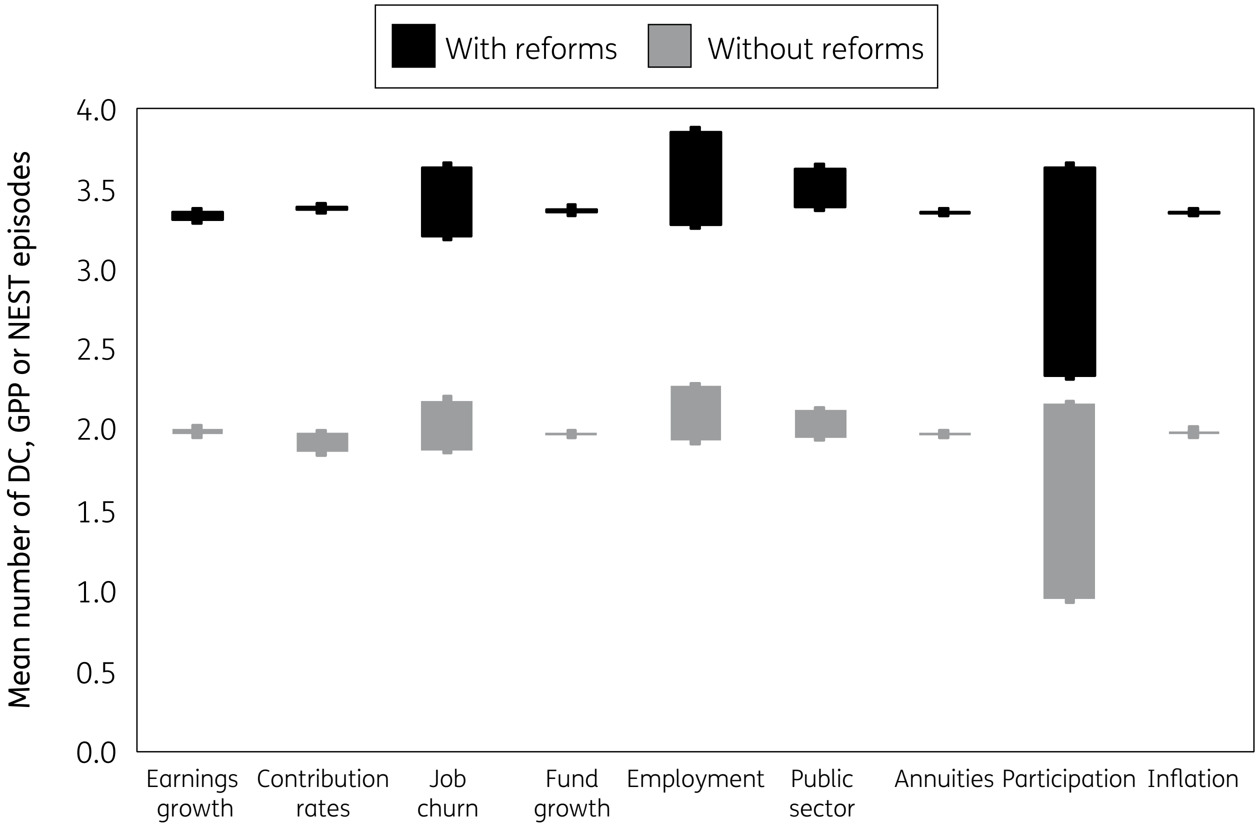
To isolate analysis of the number of pension episodes in DC, Group Personal Pensions, or NEST (with the reforms) only, it is assumed that there are no open Defined Benefit (DB) schemes outside the public sector when individuals start retiring from 2070 to 2100.

Figure 6.6 shows the mean high and low number of DC pension episodes. As with pension episodes, spells may be within the same scheme, but split by separate spells in employment. Overall, the mean number of pension episodes increases from a principal of around 2.0 pension without the reforms to a principal of around 3.4 pension episodes with the reforms.

Again, the mean number of pension episodes is dependent on labour market episodes. In addition, the size of the public sector could play a small role. If public sector employment decreases and overall employment is unaffected, it is likely that there will be a marginal increase in the number of DC episodes.

Overall, Figures 6.5 and 6.6 show that while pension participation is difficult to quantify both with and without the reforms, it is one of the most important factors in determining the mean number of pension episodes.

Figure 6.6 Mean number of DC episodes arising from high and low scenarios at retirement



Source: DWP estimates derived from the Pensim2 model, 2070–2100.
Note on interpreting the chart: the length of each bar represents the range of mean number of DC, GPP or NEST episodes. In contrast with Figures 6.2 and 6.3, bar widths are the same because there is no overlap between 'With reforms' and 'Without reforms'.

6.3.4 Small DC pots[96]

The increase in employers switching from DB to DC schemes (see Chapter 4) and the increase in job churn[97], is expected to increase the number of DC schemes and the number of small dormant pension pots. In addition, the reforms are expected to bring a new group of individuals into pension saving who have different earnings and labour market characteristics to those who currently save[98]. It is therefore important to understand the extent of the increase in small pension pots to understand the potential impact on individuals and industry[99].

96 A small DC pension pot is any dormant pot worth less than £2,000 (when the member ceases to make any further contributions). The £2,000 limit is set in 2012, and this is uprated each year in line with average earnings growth.

97 DWP (2010). *Making Automatic Enrolment Work: A review for the Department for Work and Pensions*. At: http://www.dwp.gov.uk/docs/cp-oct10-full-document.pdf

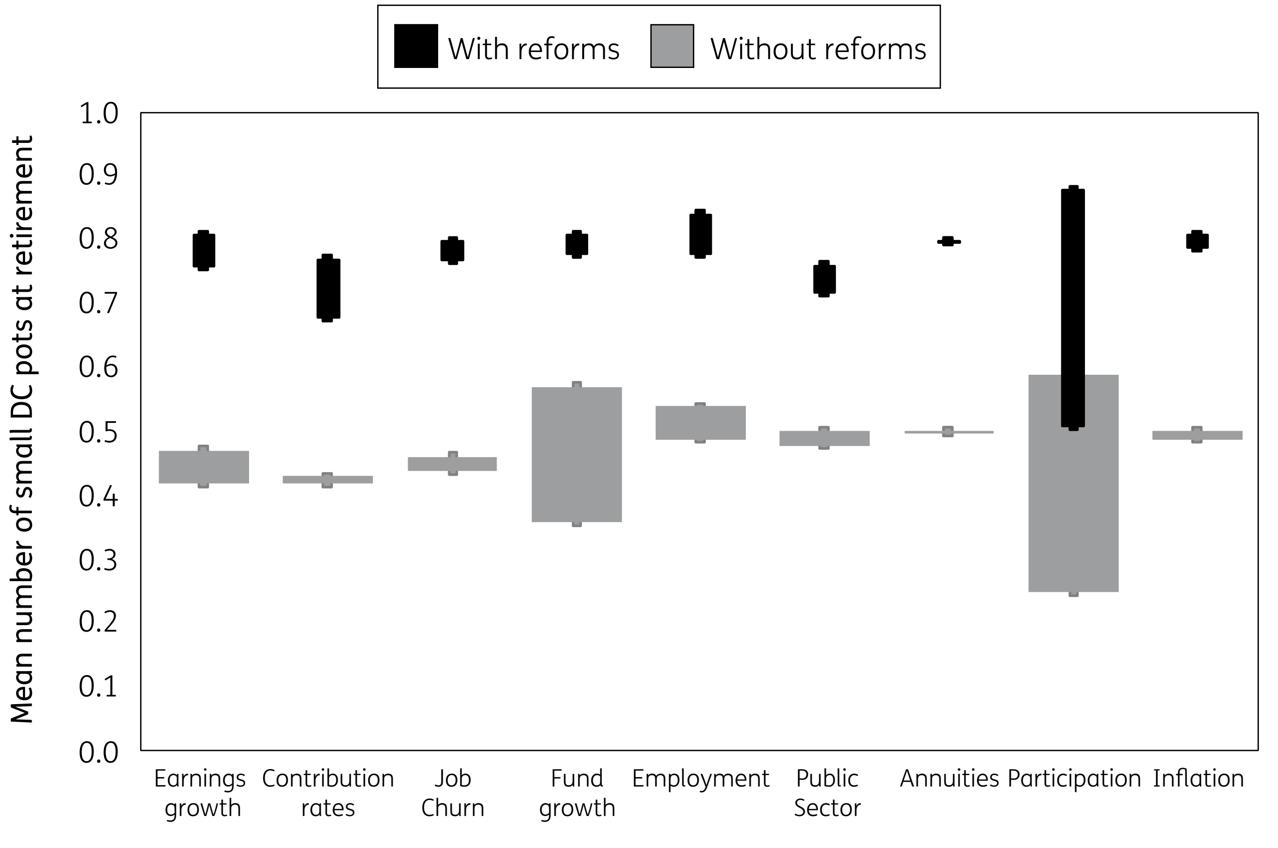
98 Those that are saving are more likely to be on higher income, older and less likely to churn through the labour market. There is also a significant stock of public sector employees saving.

99 An increase in the number of small pots will potentially make it difficult for individuals to engage with pensions saving and are expensive for industry to administer.

Figure 6.7 shows for each assumption the high and low scenarios for the mean number of small DC pension pots for individuals retiring from 2070 to 2100. While the reforms increase the mean number of small pension pots from a principal of around 0.5 per individual without the reforms (out of 2.0 DC pension episode) to a principal of 0.8 small pots per individual with the reforms (out of the 3.4 DC pension episodes) the impact is small and is mainly driven by pension participation assumptions. This outcome is however consistent with an increase in the number of small pots over the whole DC population and the more limited savings histories of some individuals in the early years of the reforms.

Further analysis of small pots shows that there are clearly a number of factors pulling in different directions. While the reforms bring a new group of lower income, higher job churn individuals into pension saving who increase the probability of a pension pot being small, the reforms also introduce minimum contributions into workplace pension schemes which decrease the probability of a pension pot being classified as being small.

Figure 6.7 Mean number of small DC pots arising from high and low scenarios at retirement



Source: DWP estimates derived from the Pensim2 model, 2070–2100.
Note on interpreting the chart: the length of each bar represents the range of mean number of small DC pots at retirement. Bar widths are different to illustrate the overlap between 'With reforms' and 'Without reforms'.

6.3.5 Median weekly private pension income[100]

Several factors affect an individual's pension income. Some of these have been discussed (such as labour market movement, pension participation, pension episodes and contributions), while others such as earnings growth, fund growth and annuity rates at retirement have not. Table 6.4 shows the relative importance of each of these factors on an individual's median private pension income by gender in 2070 (in 2012 price terms). Figures are in 2012 price terms in order to indicate the spending power of the pension income. For each high and low scenario in the table, the relevant factor (i.e. earnings growth, contribution rates, etc.) has been changed but all others have been held constant.

Table 6.4 Median weekly private pension income by gender in 2070 under various assumptions

2012 price terms (£)

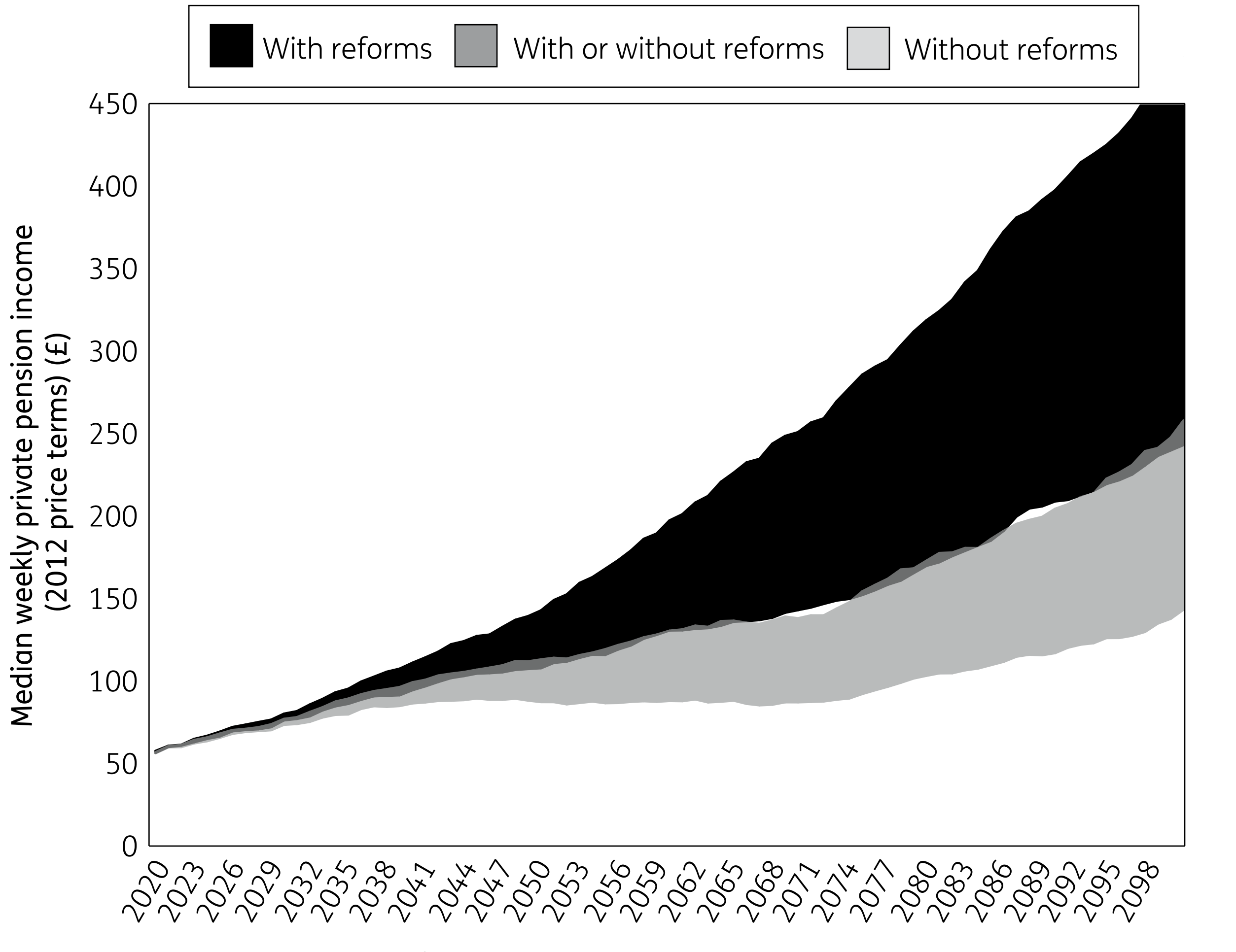
	Without the reforms		With the reforms	
	Low	**High**	**Low**	**High**
All median weekly pension income				
Earnings growth	101	116	174	199
Contribution rates	106	110	174	209
Job churn	107	118	189	193
Fund growth	87	138	143	251
Employment	106	129	184	219
Public sector employment	105	108	186	188
Annuities	105	112	178	192
Pension participation	86	106	153	195
Male median weekly pension income				
Earnings growth	131	145	230	264
Contribution rates	137	144	230	276
Job churn	144	147	241	255
Fund growth	106	179	179	343
Employment	133	166	247	285
Public sector employment	132	136	248	192
Annuities	137	145	235	256
Pension participation	179	146	198	260
Female median weekly pension income				
Earnings growth	83	95	131	151
Contribution rates	88	90	131	156
Job churn	86	96	140	147
Fund growth	74	116	112	184
Employment	93	106	141	164
Public sector employment	88	93	137	145
Annuities	86	93	136	145
Pension participation	74	93	117	146

Source: DWP estimates derived from the Pensim2 model, 2070.

100 Median weekly private pension incomes is calculated across all private pensions, including personal pensions. These values include observations with zero private pension income.

Figure 6.8 shows median weekly private pension income under high and low fund growth scenarios (fund growth ranges between five per and nine per cent per year both with and without the reforms). It is clear that the impact of fund growth is substantial, and drives the widest range of uncertainty in weekly private pension income both with and without the reforms.

Figure 6.8 Median weekly private pension income in 2012 price terms, under high and low fund growth scenarios at retirement

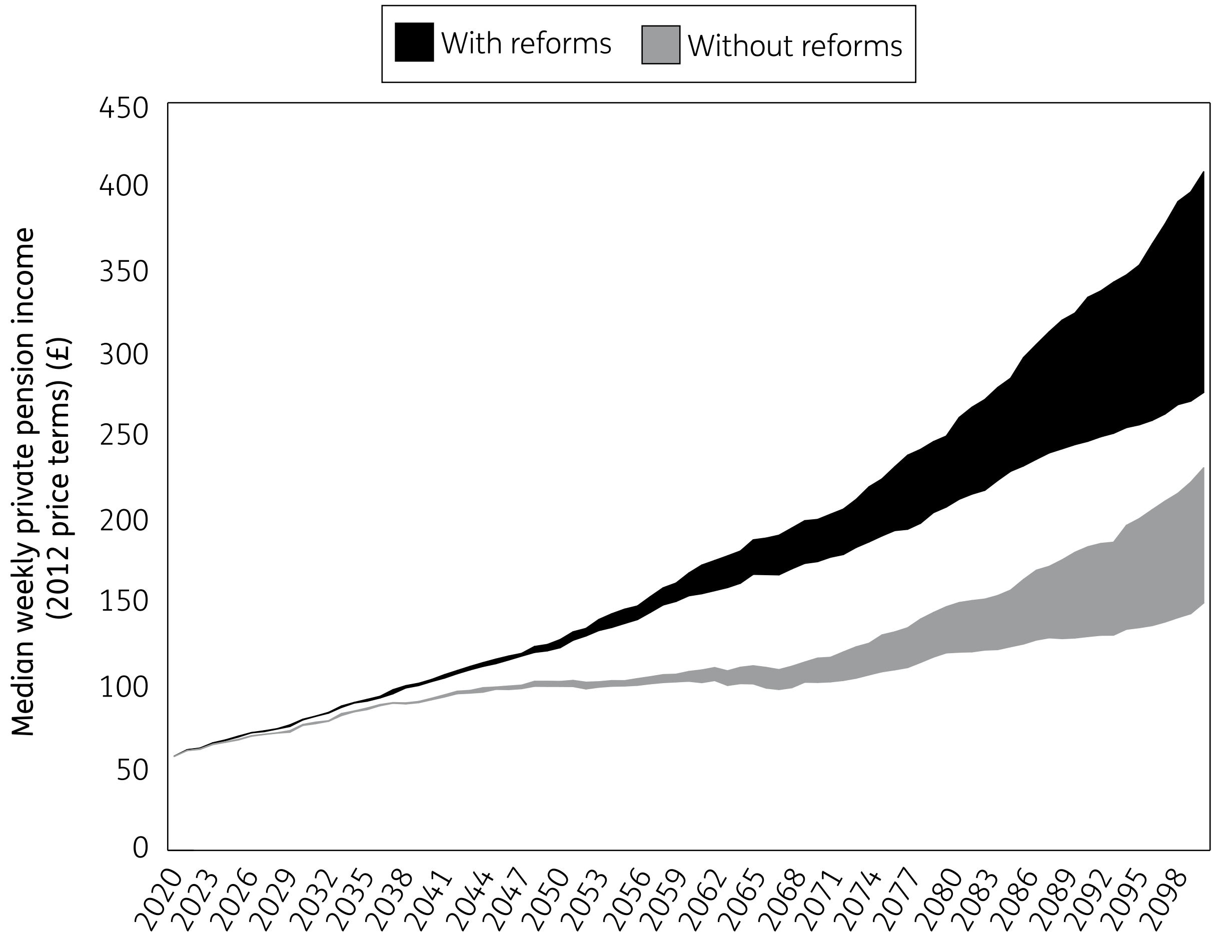


Source: DWP estimates derived from the Pensim2 model, 2020–2100.

Figure 6.9 shows median weekly private pension income under high and low average earnings growth scenarios. While the effect of average earnings growth[101] is not as significant as fund growth, it does still have a major effect on median weekly private pension income. It illustrates the strong correlation between median weekly private pension income and average earnings growth when all other key assumptions are held constant.

101 Earnings growth is real earnings growth, so individuals' incomes rise (or fall) while inflation is held constant.

Figure 6.9 Median weekly private pension income in 2012 price terms, under high and low average earnings growth assumptions at retirement



Source: DWP estimates derived from the Pensim2 model, 2020–2100.

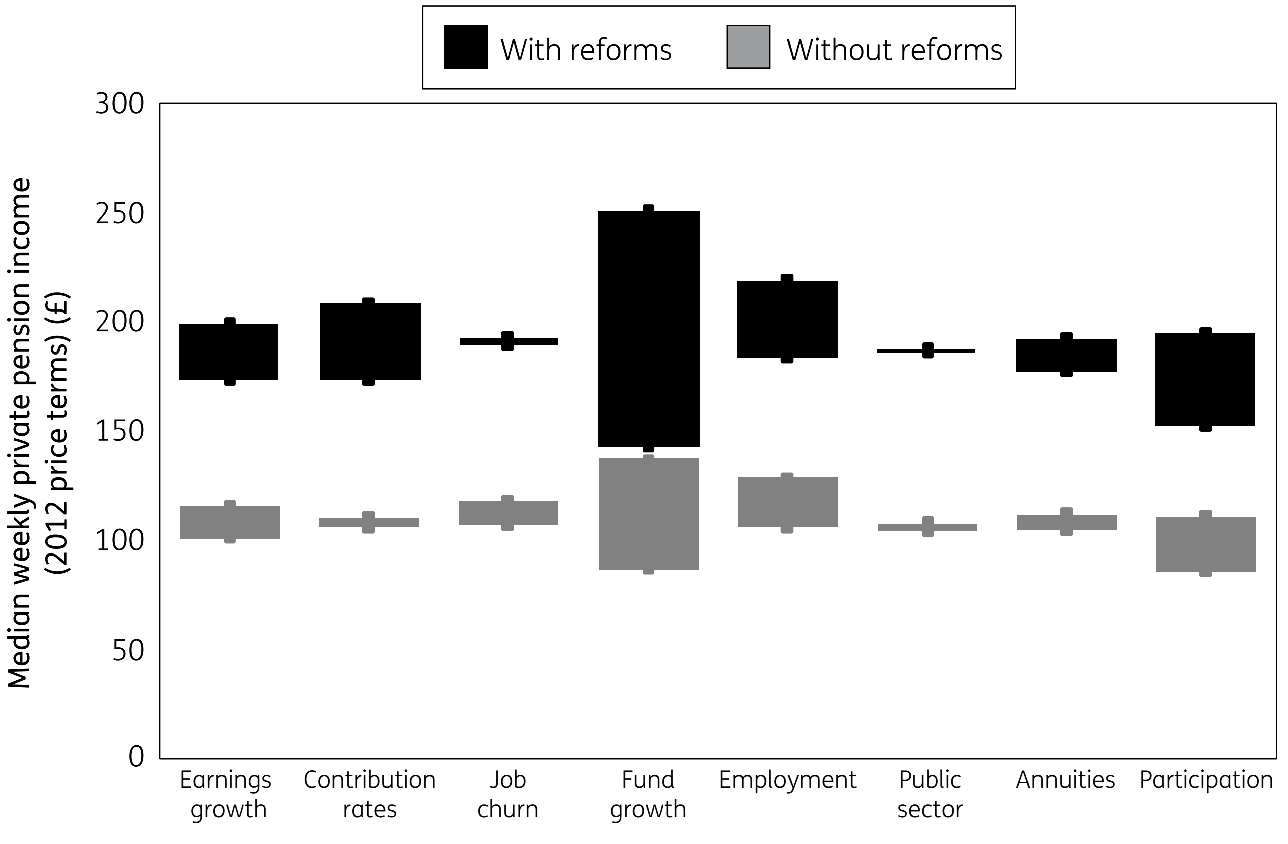
Repeating the analysis in Figure 6.9 to include just those pensioners in their first year of retirement[102] helps validates findings from Figure 6.8 and 6.9, that prior to 2030, the rise in median weekly private pension income is mainly due to the rise in prices, and not due to the reforms. It is not until the late 2030s that you start to see a noticeable effect on aggregate median weekly private pension incomes. The analysis illustrates that the effects of the reforms will take time before they significantly affect median weekly private pension income.

102 This analysis is based on a small sample which results in output being more volatile, more vulnerable to the effects of random variability.

Figure 6.10 shows median high and low weekly private pension income for individuals retiring in 2070[103]. While all the key assumptions have an effect on median weekly private pension income, fund growth can be seen as a one of the most important factors in determining private pension income, with pension participation, levels of employment, and average earnings growth also having a significant affect an private pension income. This does not mean other assumptions such as annuity rates have little to no impact on private pension incomes in real life. For example, an increase in longevity[104] would lead to a decrease in annuity rates and private pension income would fall.

This analysis shows that the reforms are expected to have a substantial effect on increasing median weekly private pension incomes in steady state, but the precise effect is subject to uncertainty in key assumptions.

Figure 6.10 Median weekly private pension income arising from high and low scenarios at retirement, in 2012 price terms



Source: DWP estimates derived from the Pensim2 model, 2070.
Note on interpreting the chart: the length of each bar represents the range of median weekly private pension income (in 2012 price terms). In contrast with Figures 6.2 and 6.3, bar widths are the same because there is no overlap between 'With reforms' and 'Without reforms'.

103 Inflation on private pension income is not shown in the chart since the outputs will not reflect the impact of inflation on pensions incomes. The change shown will simply be a product of using a higher or lower deflator.

104 Pensim2 model is a product of the assumptions that feed into it. High and low scenario analysis around demographic changes has been excluded from the scope of this piece of analysis.

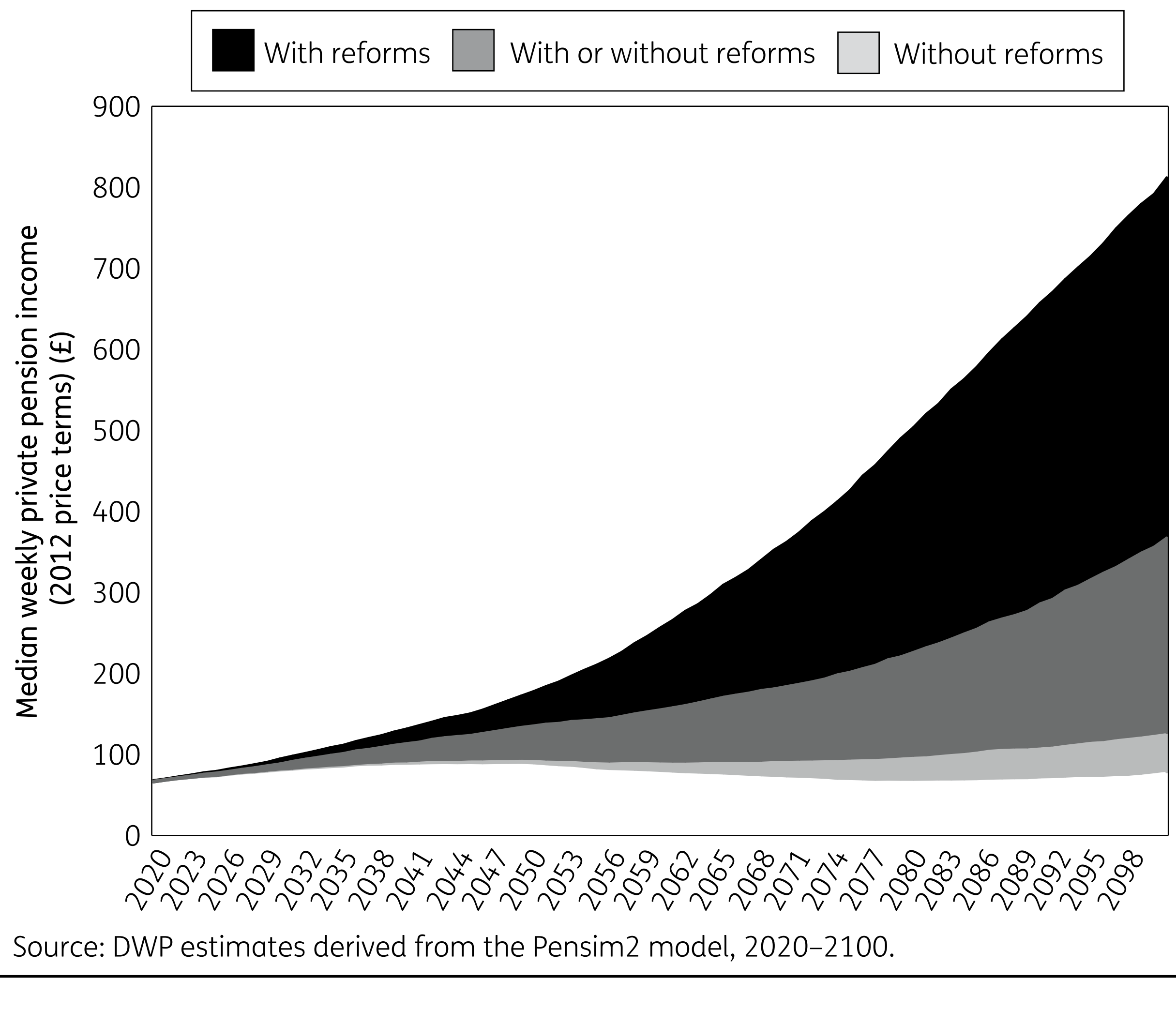
6.3.6 Extreme high and low scenarios

Figure 6.11 shows median weekly private pension income over time in scenarios where a range of high and low assumptions are combined to show the impact with the reforms and without the reforms.

There is a significant degree of uncertainty in pension incomes, both with and without the reforms. This uncertainty is accounted for by a variety of factors, such as pension participation rates, earnings and price inflation and the level of contributions. However, it is clear that the reforms are expected to have a significant effect on median weekly private pension incomes and that the range of this effect could increase the median weekly private pension income from anywhere between £20 and £287 per week by 2070.

There is some overlap in median private pension incomes between the high range without the reforms, and the low range with the reforms. This indicates that although the reforms have a significant impact on private pension incomes, other factors will also play a part in determining an individual's private pension income. For example, a long period of high earnings growth (however unlikely) is likely to increase private pension income over and above the impact of the reforms alone. However, a combination of high earnings growth and the reforms will increase an individual's private pension income even further.

Figure 6.11 Median weekly private pension income in 2012 price terms, under extreme combinations of high and low scenarios



Source: DWP estimates derived from the Pensim2 model, 2020–2100.

Appendix A
Evaluation Questions

EQ1. Were the Workplace Pension Reforms delivered to the planned timescales?

EQ1.1. Was NEST (National Employment Savings Trust) introduced with the capacity to fulfil its Public Service Obligation by the end of staging within planned timescales?

EQ1.2. Was the Employer Compliance Regime function of the Pensions Regulator introduced for the onset of employer duty, with the capacity to regulate employers through implementation and steady state?

EQ1.3. Was the Workplace Pension Reforms communications strategy delivered to the planned timescales?

EQ2. Does NEST accept all employers who choose the scheme, while offering low costs to members and remaining financially viable?

EQ2.1. Does NEST accept all employers who choose the scheme to meet their employer duties?

EQ2.2. Is the membership sufficient to secure the long-term financial stability of NEST?

EQ3. Do employers know about, understand and comply with their employer duties?

EQ3.1. To what extent are employers aware of their duties and know how to discharge them?

EQ3.2. How many employees are treated in a ‘compliant way’ by their employer?

EQ3.3. To what extent do employers have arrangements with a qualifying scheme?

EQ3.4. To what extent is employer behaviour influenced by their attitudes, awareness and levels of understanding of the reforms?

EQ3.5. To what extent are employers aware of the enforcement powers available to deal with non-compliance and the approach the Pensions Regulator intends to take?

EQ3.6. To what extent do detection and enforcement activities result in non-compliant employers becoming compliant and do they support a broader culture of compliance?

EQ4. To what extent do the Workplace Pension Reforms increase the number of individuals saving in workplace pensions?

EQ4.1. To what extent are individuals saving persistently in a workplace pension?

EQ4.2. How many individuals that were automatically enrolled have opted out of a qualifying scheme?

EQ4.3. How many individuals that were automatically enrolled have voluntarily ceased saving in a qualifying scheme?

EQ4.4. Why do individuals opt out or voluntarily cease saving in a qualifying scheme?

EQ4.5. How many individuals who are not eligible for automatic enrolment have opted in?

EQ4.6. To what extent are individuals accepting of the need to save in a workplace pension?

EQ4.7. To what extent do individuals recognise the benefits of saving into a work place pension?

EQ4.8. To what extent can individuals access the information on automatic enrolment and workplace pension saving?

EQ4.9. To what extent can individuals understand information they are given on automatic enrolment and workplace pension saving?

EQ5. To what extent do the Workplace Pension Reforms increase the amount being saved in workplace pensions?

EQ5.1. Have employers who were contributing above the minimum for existing members prior to the introduction of the reforms reduced contributions?

EQ5.2. How much more are individuals contributing to total household savings?

EQ6. To what extent is delivery of the Workplace Pension Reforms achieved with a minimal burden on employers?

EQ6.1. What are the contribution costs for employers, of complying with their duty?

EQ6.2. What are the administrative costs for employers, of complying with their duty?

EQ6.3. How do employers respond to the costs incurred as a result of the employer duty?

EQ6.4. How do employers make decisions around which qualifying scheme to enrol members into and how much to contribute?

EQ6.5. What are the views and attitudes of employers to the level of burden resulting from the reforms?

EQ7. How has the pensions industry reacted to the Workplace Pension Reforms?

EQ7.1. How has the pensions landscape changed since the reforms?

EQ7.2. What changes have there been to prevailing charge structures and levels since the reforms?

EQ7.3. What burdens have providers faced following the announcement of the reforms?

EQ7.4. To what extent do providers follow the regulators guidance on the reforms?

EQ8. What are the wider economic impacts of the Workplace Pension Reforms?

EQ8.1. Does the current policy present any barriers to saving?

EQ8.2. What are the costs to the Exchequer of employers response?

EQ8.3. What are the unintended consequences of the reforms?

Appendix B
Sources of information

The baseline and subsequent evaluation reports will draw on existing information sources as far as possible. If no suitable data source exists, the Department or the regulator will consider commissioning relevant discrete quantitative and/or qualitative research with individuals, employers and industry. This will be reviewed on a case by case basis to ensure value for money for the taxpayer.

Section B.1 and B.2 summarise the main surveys[105], administrative data sets, models, including new sources such as Management Information reports which will be used to measure recent trends and/or provide an indicative baseline to monitor the effects of the reforms in this report and in future evaluation reports. The summaries highlight any data issues and concerns, and include which aspects of the evaluation questions will be monitored using these information sources. This information is summarised in Table B.1. This is based on our understanding of the information available, at the point of publication and may be subject to change[106].

B.1 Surveys and administrative data

DWP Annual Family Resources Survey (FRS), 2003/04 onwards, UK: information on the incomes and circumstances of private households. It enables us to monitor information for all adults (i.e. not just employees) against a wide range of demographics and personal indicators. The FRS will provide information on individuals who choose to opt in[107] and save in a workplace pension by protected characteristics not covered by the Annual Survey of Hours and Earnings (ASHE), such as race and disability (see Chapter 3).

In 2006/07, the pensions questions asked in the FRS were revised to improve the quality of pension participation estimates. However, problems tailoring questions led to an overstatement of pension participation rates compared to earlier FRS years and administrative sources. The datasets for 2006/07, 2007/08 and 2008/09 were edited to try to correct for this. However, concerns remained as it was thought some dormant pension memberships were being incorrectly reported. Modelled estimates for the years 2006/07 to 2008/09 have been produced and improvements have been made to the pensions estimates from 2003/04 to 2005/06. This issue was corrected from 2009/10

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105 Due to the staged implementation approach only a small proportion of individuals will have been automatically enrolled in the early years of staging. It will, therefore, be difficult to robustly identify individuals who have been automatically enrolled because they may be unaware of this. Research will therefore not be fully representative of all individuals and will only be used indicatively to understand reasons why individuals choose to not save or voluntarily cease saving during staging.

106 The commissioning of discrete research is subject to receiving Departmental funding. The availability of information on non-Department for Work and Pensions (DWP) and regulator surveys will be subject to retaining required questions.

107 The FRS cannot distinguish between those individuals who voluntarily opt in and those who have been automatically enrolled by the employers despite the fact they are not eligible. The DWP Employer Pension Provision Survey will be used in conjunction with the FRS to approximate the proportion of employers who automatically enrol all their employees and those who only automatically enrol eligible employees.

following further changes to the questions. Therefore, estimates over time should be treated with caution[108].

DWP Annual Households Below Average Income (HBAI), 2010/11 onwards, UK: uses household disposable incomes, adjusted for household size and composition, as a proxy for material living standards and for the level of consumption of goods and services that individuals can attain given the disposable income of the household they live in. The HBAI will be used in future reports to monitor the longer term objective to reduce pensioner poverty and improve living standards for pensioners.

DWP Communication Tracker, 2011 onwards, UK: information on the effect of communications activity and intended behaviours as a result of the reforms. The communication tracker has been used to assess the level of acceptance amongst individuals on the need to save, the benefits of savings and whether individuals can find information on the reforms if they want it in advance of the communication and information campaign (see Chapter 3). Future reports will assess the extent to which the campaign has delivered the changes in attitudes necessary to support the reforms and used indicatively to understand reasons why individuals choose to not save or voluntarily cease saving during staging.

DWP Attitudes to Pensions (AtP), 2006, 2009 onwards, GB: information on individuals attitudes, knowledge and behaviour in relation to pensions and saving for retirement. In future reports the AtP will provide supplementary information on the extent to which the communications and information campaign delivered the changes in attitudes to support the reforms and used indicatively to estimate opt out, understand reasons why individuals choose to not save or voluntarily cease saving during staging.

DWP Qualitative Research with Individuals, GB: information on what influences individuals to opt out following automatic enrolment, whether employees are treated in a compliant way and whether communications affect employee behaviour. Individuals will be sampled from employers who have been staged in.

DWP Individual Attitudes Survey (IAS), 2007 and 2009, GB: information about likely participation and contribution levels, attitudes and likely reactions to key aspects of the reforms. In advance of the implementation of the reforms, the IAS has been used indicatively to estimate opt out and reasons why individuals may choose to not save (see Chapter 3).

DWP Bienniel Employer Pension Provision Survey (EPP), 2007 onwards on a consistent basis, GB: information on the nature of pension provision in the private sector, extent of employee membership, employee and employer contribution rates, reasons for non-provision, planned changes and employers attitudes and likely reactions to the reforms.

The EPP has been used indicatively in advance of the implementation of the reforms to: explore employers' views on the level of burden associated with different aspects of the reform; understand the nature of the trade-offs and the key drivers which determine employer behaviour; understand how employers envisage they will respond to the additional costs and the factors considered, such as use of easements (waiting periods, certification). Employer response to these costs will affect costs to the Exchequer (see Chapter 5).

108 Full details on the approach can be found at: http://statistics.dwp.gov.uk/asd/asd1/adhoc_analysis/2011/frs_modelling_publication.pdf

Future reports will monitor these areas of evaluation, as well as model opt out at the employer level. DWP will also derive modelled estimates to provide supplementary information on the number of individuals who choose to opt in[109], levelling down of employer contributions[110] and changes in the pension landscape (such as sector analysis to determine the type of employer pensions are sold to). Additional surveys may be commissioned to capture data more frequently if required.

DWP Qualitative Research with Employers, GB: information on employers' experience of the reforms, looking at a range of issues, including: the extent to which employer behaviour is influenced by attitudes, awareness and level of understanding of the reforms; employers response to the administrative and contribution costs incurred as a result of the duty; how employers make decisions around how much to contribute; views on the level of burden resulting from the reforms; and opt out at the employer level. Fieldwork will take place in stages as employers are staged in.

To make best use of the early evidence, any learning from employers in the early stages of implementation will be passed on to employers who have not yet reached their staging date. For example, identifying the main processes involved, issues arising, how decisions are shaped and how these feed into year one set up and ongoing administrative costs. This will enable these costs to be isolated from other administrative costs to better understand the effects on different types of employers and the regulatory burdens.

DWP Pension Landscape and Charges Survey (PLCS), 2011 onwards on a consistent basis, GB: information on charging levels and structures in trust based Defined Contribution schemes, contract based group personal pensions and stakeholder pensions. The survey has been used to understand the average charge levels of trust based and contract based schemes (see Chapter 5). Future reports will monitor these areas and will enable us to understand provider views on regulatory burden and guidance[111].

DWP Management Information reports: information on number of claimants and expenditure on income-related benefit (IRB). Future reports will monitor the cost to government due to the minor increase in IRB expenditure during working life[112] and the savings to government due to the reduced reliance on IRBs in retirement[113].

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109 The survey will be used to determine the proportion of employers who automatically enrol all their employees and those who only automatically enrol eligible employees.

110 Levelling down is when employers reduce their contributions to statutory minimum levels. It can also refer to other forms of reduction in contributions or benefits that are made in order to meet the new duties on employers.

111 No baseline because the regulatory burden on providers does not exist pre-duty.

112 Under the current system, pension contributions are disregarded from entitlement calculations for Tax Credits and IRBs such as Income Support, Council Tax Benefit (CTB), Housing Benefit (HB) and Income-based Jobseekers' Allowance. This will need to be reviewed once Universal Credit has been finalised.

113 Under the current system, this is receipt of Pension Credit, CTB and HB. The effect will be small initially, as the reduced reliance on IRBs will increase over time as individuals affected by the reform start to retire. The full effect will not be realised until 2070 when an individual retires having spent their entire working life under the reforms. This will need to be reviewed once the reforms of the State Pension have been finalised. See http://www.dwp.gov.uk/policy/pensions-reform/

Financial Services Authority (FSA): information on leading providers of insurance-administered occupational pension schemes. Future reports will monitor changes in these schemes to understand the market share of leading providers but also its evolution over time (see Chapter 5).

Office for National Statistics (ONS) Wealth and Assets Survey (WAS 2006/08 onwards), GB: longitudinal information about the economic wellbeing and assets of households and individuals, including pension provision, attitudes to pensions saving, financial saving and property wealth. WAS data is collected over two years. WAS has been used to understand the composition of total household savings (see Chapter 4). The inclusion of all assets and the longitudinal nature will allow the survey to be used to monitor changes in total household savings for all adults over time and to understand how much pension saving has been offset by reductions in other forms of saving. WAS will also provide information on those saving persistently by demographics not covered in the Annual Survey of Hours and Earnings (ASHE) and help explore individual attitudes, intentions and levels of understanding.

ONS Annual Survey of Hours and Earnings (ASHE 1997 onwards), GB: the analysis in this report uses both the cross-sectional and the unweighted longitudinal ASHE[114]. Longitudinal information is available on the levels of earnings, the makeup of total earnings, the distribution of the average earnings, hours worked, pension type, employer and employee contributions. Since ASHE is completed by the employer for their employees, it is one of very few data sources that enable us to accurately monitor trends in participation by industry and sector for all types of employer-sponsored schemes.

The cross-sectional[115] element of the survey has been used to monitor eligible employee participation by sector, gender, age, employer size and type of industry (see Chapter 3) and pension saving by employee and employer contribution and tax relief of employee contributions (see Chapter 4). The unweighted longitudinal[116] element of the survey has been used to monitor persistency of saving (see Chapter 3) and levelling down of employer contributions (see Chapter 4)[117].

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114 Key things to note are:

1. All analysis (except Table 4.2) is based on eligible employees, and uprated using Average Weekly Earnings values. Gross annual earnings are derived using weekly pay, and no filter has been included for loss of pay in the pay period;
2. ASHE data for 2002 contained 12 per cent of employees having a missing value for their employer size, which resulted in a bias in the results. Analysis has been smoothed to remove this bias;
3. Changes to the Standard Occupational Classification in 2011 introduced new weights. The back series will not be re-weighted so there will be a structural break in the series.

115 Cross-sectional analysis is based on weights designed for earnings analysis because the survey does not have dedicated pension weights (used in statistical analysis to better reflect the relative importance of a number or variable, for example, a weight may be applied if a certain group is under-represented in sample).

116 Longitudinal analysis does not include weights which would correctly-weight aggregate estimates. This affects the inference that can be made from any analysis of the longitudinal dataset. The creation of weights was suggested at both the stakeholder workshops see Appendix C – Stakeholder Engagement for further details, and by the Statistics and Registration Service Act 20072 (Requirement 8).
At: http://www.statisticsauthority.gov.uk/assessment/assessment/assessment-reports/assessment-report-138---annual-statistics-on-hours-and-earnings.pdf

117 Persistency of saving will look at whether individuals are saving in three out of a period of four years. Levelling down is the reduction of employer contributions for existing members in anticipation or in order to meet the employer duties.

Future reports will monitor these areas of evaluation and provide supplementary information on the proportion of individuals who voluntarily cease saving[118].

ONS Occupational Pension Schemes Survey (OPSS), 2004 onwards, UK: information on the nature of occupational pension provision, including membership of schemes, the nature of the benefits provided and contributions paid based on a sample of schemes in the public and private sectors. The survey has been used to provide supplementary information on whether there is levelling down of employer contributions at a national level, specifically accrual rates of Defined Benefit (DB) schemes which are not collected in ASHE (see Chapter 4) and to understand the trends in DB and Defined Contribution (DC) (trust based) schemes closed to new members and future accruals[119] (see Chapter 5). Future reports will continue to monitor these areas of evaluation.

ONS Annual Business Survey (ABS), 1998 onwards, UK: information on the number of employees, amount spent on pension contributions, employment costs, revenue, profits and detailed industrial sector and location. In future reports, the longitudinal element will enable us to monitor employer response to set up and on-going costs by tracking shifts in pension contributions in relation to other costs, such as absorbing the increase through overheads, profits, revenue, labour costs etc.

ONS Pension Trends, UK: information on pension contributions which is derived from ONS (Survey of insurance companies and self-administered pension funds (MQ5), HMRC Administrative data and Association of Business Insurers). The published tables on pension contributions will be used as supplementary information to validate total saving estimates from ASHE[120].

HM Revenue and Customs (HMRC) Administrative Data, UK: information on non-occupational personal pensions, including stakeholder and group personal pensions, gathered by the HMRC as part of the process of administering basic rate tax relief on personal pension contributions. Information is published both in terms of the type of pension scheme, the source of contributions, and characteristics of the individuals making contributions. The published tables have been used to monitor non-employer-sponsored schemes and average contributions into these schemes (see Chapter 5). Future reports will continue to monitor these areas of evaluation.

HMRC Real Time Information (RTI): this is a new administrative system which is being developed by HMRC to make Pay As You Earn (PAYE) easier for employers to operate, more accurate for individuals, and support the introduction of Universal Credit. The Department is in discussions with HMRC regarding its content and use for evaluating the reforms, for example in helping to measure opt out and individuals who voluntarily cease saving.

The Pensions Regulator (TPR) Employer Tracking Survey, UK: survey information from employers to understand knowledge of and attitudes towards the reforms. The information is used to monitor employer awareness, understanding and awareness of the new duties as well as the regulator's enforcement powers (see Chapter 2).

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118 ASHE analysis in conjunction with job churn analysis using the ONS Labour Force Survey will enable the Department to model the proportion of individuals who have potentially stopped saving because they have moved job and those who have chosen to voluntarily cease saving.

119 There are some known issues about the reliability of some scheme numbers for OPSS 2008, and to a lesser degree, subsequent years.

120 Direct comparisons cannot be drawn as lump sums are treated differently. ASHE will only record lump sums attributed to an individual employee.

TPR Management Information reports: information will be available once the employer duties commence. In future reports the information will be used to monitor employers registering with the regulator, and any enforcement activity carried out.

TPR Purple Book (2005 onwards), UK: information on the DB pension landscape, focusing particularly on the risks faced by DB pension schemes, predominantly in the private sector. The published report has been used to provide supplementary information on the number of DB schemes to support estimates produced using the ONS ASHE and OPSS (see Chapter 5). Future reports will continue to monitor these areas of evaluation.

TPR DC Trust (2009 onwards), UK: information on the occupational trust based DC pension schemes and memberships[121]. The published report has been used to provide supplementary information on the number of DC schemes to support estimates produced using the ONS ASHE and OPSS (see Chapter 5). Future reports will continue to monitor these areas of evaluation.

NEST Management Information reports: information will be available from scheme launch. In future reports the information will be used to monitor NEST membership, persistency of saving in NEST, opt out in NEST, individuals who voluntarily cease saving in NEST and reasons for ceasing saving. The report will also provide supplementary information on whether NEST meets its Public Sector Obligation to accept all employers that want to use the scheme to fulfil either all or part of their employer duties and to determine the financial stability of NEST.

Pensions Ombudsman, the Pensions Advisory Service (TPAS), Money Advice Service (MAS), Directgov website and other sources: in future reports, complaints to the Pensions Ombudsman and TPAS against NEST will be used to monitor whether NEST meets its PSO to accept all employers that want to use the scheme to fulfil either all or part of their employer duties. The volume of calls to TPAS, MAS and the Workplace Pension Information Line will be monitored to ensure the services can cope with the demand, and record the reasons. The directgov website will be used to monitor accessibility of information using web traffic and feedback on web pages. In addition, employer templates will be tested using ad-hoc employer research and feedback from information providers, partners and stakeholders.

121 Small schemes (i.e. those with 12 or fewer members) are not included in the DC Pensions Trust report produced by the Regulator. Small schemes account for around 90 per cent of the total number of DC Trust schemes. This information is collected by the regulator and an area that will be explored in future reports.

B.2 Model

Pensim2: The Department's dynamic micro simulation model is based on the 2006 Family Resources Survey, British Household Panel Survey, and Lifetime Labour Market Database (see Chapter 6). The model ages a representative sample of the GB household population over time. The model simulates future life events and work histories using a large set of assumptions to enable us to see how an individual's life evolves with a given policy regime. Since Pensim2 models what each individual accrues from both state and private pensions, it can be used to establish the counterfactual, a view of the pension landscape if the reforms had never happened, with the additional advantage of allowing us to compare outcomes amongst a range of groups at different points in time[122].

[122] The model is based on 60,000 individuals. Outcomes are therefore restricted to avoid small sample size issues; the smaller the sample the larger the margin of error or uncertainty attached to the estimate.

Table B.1 Monitoring the Evaluation Questions

Evaluation Questions	DWP FRS	DWP HBAI	DWP Tracker	DWP AtP	DWP Qualitative individual research	DWP IAS	DWP EPP	DWP Qualitative employer research	DWP PLCS	DWP MI reports	ONS WAS	ONS ASHE	ONS OPSS	ONS ABS	ONS Pension Trends	HMRC MI reports	HMRC RTI	TPR Tracker	TPR MI reports	TPR Purple Book	TPR DC Pension Trust	NEST MI reports	Pensions Ombudsman	TPAS MI reports	MAS MI reports	FSA
Delivery of the reforms																										
Policy and legislative framework (EQ1)																										
NEST-PSO (EQ2.1)																										
Financing of NEST (EQ2.2)																										
Employer aware of duties (EQ3.1)																										
Employees treated compliantly (EQ3.2)																										
Employers have a qualifying scheme (EQ3.3)																										
Employer behaviour influenced by attitudes, awareness and understanding (EQ3.4)																										
Employer aware of enforcement powers (EQ3.5)																										
Result of detection and enforcement (EQ3.6)																										

Continued

Table B.1 Continued

Evaluation Questions	DWP FRS	DWP HBAI	DWP Tracker	DWP AtP	DWP Qualitative individual research	DWP IAS	DWP EPP	DWP Qualitative employer research	DWP PLCS	DWP MI reports	ONS WAS	ONS ASHE	ONS OPSS	ONS ABS	ONS Pension Trends	HMRC MI reports	HMRC RTI	TPR Tracker	TPR MI reports	TPR Purple Book	TPR DC Pension Trust	NEST MI reports	Pensions Ombudsman	TPAS MI reports	MAS MI reports	FSA
Increasing the number of savers																										
Trends in saving (EQ4)																										
Persistency of saving (EQ4.1)																										
Opt out (EQ4.2)																										
Voluntarily cease saving (EQ4.3)																										
Reasons to opt out or cease saving (EQ4.4)																										
Opt in (EQ4.5)																										
Accepting the benefits of saving (EQ4.6, EQ4.7)																										
Providing Information (EQ4.8, EQ4.9)																										
Increasing the amount saved																										
Trends in pension saving (EQ5)																										
Employer levelling down (EQ5.1)																										
Total household savings (EQ5.2)																										

Continued

Table B.1 Continued

Evaluation Questions	DWP FRS	DWP HBAI	DWP Tracker	DWP AtP	DWP Qualitative individual research	DWP IAS	DWP EPP	DWP Qualitative employer research	DWP PLCS	DWP MI reports	ONS WAS	ONS ASHE	ONS OPSS	ONS ABS	ONS Pension Trends	HMRC MI reports	HMRC RTI	TPR Tracker	TPR MI reports	TPR Purple Book	TPR DC Pension Trust	NEST MI reports	Pensions Ombudsman	TPAS MI reports	MAS MI reports	FSA
Understanding the wider context																										
Employer contribution cost (EQ6.1)							■	▒						■												
Employer administrative costs (EQ6.2)							■	▒						■												
Employer response to the reforms (EQ6.3)							■	▒						■												
Employer decisions (EQ6.4)							■	▒																		
Employer views and attitudes to the level of regulatory burden (EQ6.5)							■	▒																		
The pension landscape (EQ7.1)							▒					■	▒			■				▒	▒					▒
Charge structure (EQ7.2)									■																	
Burdens on providers (EQ7.3)									■																	
Providers views on guidance (EQ7.4)									■																	
Policy barriers to saving (EQ8.1)					░			░														■				
Costs to the exchequer (EQ8.2)							▒			■		▒														
Unintended consequences (EQ8.3)					░			░																		
Long-term impact of the reforms		■																								

Key

Primary source for Monitoring ■ Supplementary source for monitoring ▒ Indicative source for monitoring ░

Appendix C
Stakeholder engagement

Summary

- There was consensus that the evaluation approach was 'comprehensive' but there was also recognition that it maybe necessary to prioritise some aspects over others.
- Of the areas covered by the published evaluation questions, opt out and employer burden were identified by industry providers and employer bodies as the two key areas of interest.
- Stakeholders agreed the importance of clearly explaining early findings to ensure that results are seen within the context of the long-term nature of the reforms and expected impacts, especially around opt out levels.
- Organisations attending the workshops expressed a willingness to share information for the evaluation, and identified a number of potential data sources that could be used.

C.1 Introduction

Building on the publication of the Workplace Pension Reforms Evaluation Strategy[123], the Department held two stakeholder workshops in March 2012 to share ideas and information about the evaluation scope and approach. A further counterfactual workshop (i.e. what would have happened in the absence of reforms) was held in May 2012 to explore the counterfactual methodology and alternative modelling approaches.

The first stakeholder workshop, attended by providers and employer bodies, aimed to share the Department's evaluation plans and capture views on whether the scope looked appropriate. It covered the key areas of interest and gained stakeholder insight on additional information that could be used to evaluate the effects of the reforms. The second workshop was attended by academics and research organisations and discussed ways to enhance the more technical methodologies that will be used in the evaluation.

A full list of organisations represented and the workshop aims is shown at the end of this chapter.

C.2 Evaluation scope and approach

There was consensus amongst stakeholders that the scope of the evaluation was comprehensive with no significant gaps. However, a view expressed by several stakeholders was that it may be necessary to prioritise key evaluation questions over the course of the evaluation programme.

Several ways to narrow the scope were suggested including the identification of a core set of 'principal' research questions followed by a secondary set, and/or focusing on areas where the evidence would enable the Department to check the policy is operating as expected and react to any unintended consequences for individuals, employers and industry.

123 *Workplace Pension Reforms Evaluation Strategy*. DWP Research Report No. 764, 2011. At: http://statistics.dwp.gov.uk/asd/asd5/rports2011-2012/rrep764.pdf

Given the long-term nature of the reforms, there was unanimous agreement with the proposed approach of flexible evaluation in order to allow for changing priorities, and to take account of wider changes in the economic landscape, such as the outcomes of the Retail Distribution Review[124].

Key themes identified by Stakeholders at the workshops are summarised in Sections C.2.1 to C.2.3:

C.2.1 Individuals

There was consensus amongst stakeholders that monitoring of individual opt out will be key to assessing the effectiveness of automatic enrolment. Opt out and understanding reasons behind individuals' decisions is covered in Chapter 3.

Stakeholders appreciated the methodological challenges to monitoring opt out and understanding reasons behind individuals' decisions. However, there was some concern voiced at the reliance on qualitative research with employers to measure opt out in the early stages of implementation. Analysts from the Department explained that owing to the small number of employers in the early stages of implementation this inevitably meant a small sample, but that this would provide us with some early indication of opt out levels. A quantitative survey of employers is planned for 2013.

It was acknowledged there could be a tendency for opt out levels amongst larger employers to be high, as they have higher proportions of lower paid eligible workers whom may have previously opted out of their employers' pension schemes. It will therefore be important to ensure that early findings are seen within the context of the long-term nature of the reforms and expected impacts.

Stakeholders agreed that qualitative research with individuals will be necessary to better understand what had influenced individual decisions whether to opt out, for example the quality of information they received from their employer.

A common theme in both stakeholder workshops was the importance of looking at evaluation findings in the wider context. While not changing the planned evaluation approach, context would be important in explaining and interpreting the findings. Specifically, in terms of opt out levels, this could mean considering individual perceptions of affordability or job security within the current economic climate. This view is backed up by research findings[125] which show affordability as the most common reason given by those indicating they will opt out.

Furthermore, it was suggested that analysis of opt out should look at any differences in behaviour between those saving into a pension for the first time and those who already have pension provision for retirement.

More widely, it was felt to be important to look at the effects on individual savings and retirement income behaviour. In terms of impacts on specific groups, the self-employed and agency workers were singled out.

124 The Retail Distribution Review was launched by the Financial Services Authority (FSA) to improve the clarity with which employers describe their services to consumers. See FSA at: http://www.fsa.gov.uk/pages/About/What/rdr/index.shtml

125 Bourne, T. ,Shaw, A. and Butt, S. (2009). *Individuals' attitudes and likely reactions to the workplace pension reforms 2009*. DWP Research Report No. 669. Webb, C. *et al.* (2008). *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Research Report No. 550.

C.2.2 Employers

The regulatory burden of the reforms on employers and how they will manage the costs of the reform emerged as key issues. Employer burden is covered in Chapter 5.

In particular, stakeholders were keen to identify and address specific Regulations that were causing problems for employers, such as the ability of employees to opt in early if an employer chooses to use a waiting period. However, there were mixed views on whether early evidence gathered on larger employers would be as relevant to smaller employers.

The regulator explained that they will be monitoring awareness and understanding, as well as action relating to the reforms, with all employers. Context was again seen as important in terms of where the burdens of the reforms sit in relation to other issues facing employers and the priority they give to them.

When considering compliance issues, some thought there was an important distinction between non-compliance and lack of awareness or understanding of the duties on employers. The regulator will be collecting data about employer awareness, understanding and compliance (see Chapter 2).

In relation to employer readiness for the reforms, stakeholders felt a 'profile of readiness' might be a useful tool to interpret the findings. This profile would describe the employer journey from initial low levels of understanding, which increases in response to the provision of information and guidance. However, this falls again as they prepare to implement and get into the practical details of delivery, before rising once more as they work through any issues and implement the changes.

C.2.3 Industry and the wider economy

Stakeholders identified several issues that would impact on the pensions industry and the wider economy that the evaluation should aim to cover. Industry and the wider economy are covered in Chapter 5.

A commonly held view was the importance of comparing charges between different pension schemes. This will be covered by the evaluation questions which will specifically look at changes in the pensions landscape and charging structures since the reforms.

It was felt that it would be important to monitor the increase in small pension pots and the operational issues for the industry of merging new pots with legacy pots.

The effect of reforms on investment vehicles and risk exposure was also highlighted. A potential data source would be to use provider reports showing trends in the proportions of funds invested in different asset classes.

In the longer term, decumulation[126] was seen to be an impact relevant to both the industry and individuals, though it was acknowledged that the full effects of the reforms in this respect will not be felt for a number of years.

Relating to this, a further question was whether the inflationary effect of increased prices caused by businesses passing on pension costs to consumers would have the longer term effect of devaluing future retirement income. This will be explored in the evaluation as one of the potential wider economic impacts of the reforms.

[126] Opening a pension pot to receive retirement income.

C.3 Additional information sources

Stakeholders at both workshops expressed a willingness to share information with the Department to enhance the proposed range of information sources. Suggested sources included surveys, Management Information reports and other published or planned research by relevant organisations.

Providers all felt that they would need lead-in time to establish systems for collecting Management Information (up to summer 2012 at least). In addition, they expressed a preference for the Department to be prescriptive about the information that would be useful and why in order to limit the burden of data collection.

General support for sharing information as being sensible and providing value for money was coupled with some concerns that there are limitations, for example owing to sample sizes in surveys which will limit our ability to analyse some sub groups, for example some protected groups[127]. In addition, it will be necessary to ensure appropriate data sharing agreements are in place when data is held by a third party, such as a payroll software provider.

A risk raised was that without control over external information sources the Department will have less influence over content or indeed whether some surveys will be funded for the duration of the evaluation. It was agreed this risk will need to be managed by working with relevant organisations to ensure data collection, particularly from national surveys, meets the evaluation requirements. The Department is already addressing this issue, for example ensuring that the Office for National Statistics (ONS) Wealth and Assets Survey asks questions about automatic enrolment. Plans to run abbreviated surveys would also need to be considered for key surveys that are infrequent, such as the Department for Work and Pensions (DWP) Biennial Employer's Pension Provision survey.

C.4 Methodological approach

The methodological session of the workshop covered the more technical aspects of the evaluation approach, specifically issues relating to analysis of persistency of saving (see Chapter 3), employer contribution and levelling down (see Chapter 4) and measuring the counterfactual (see Chapter 6).

It was suggested that a working group should be set up to review weighting[128] used in the ONS unweighted longitudinal Annual Survey of Hours and Earnings (ASHE). Longitudinal ASHE is the main data source for measuring persistency of saving and levelling down but does not currently have weights on the longitudinal panel dataset.

Measuring the counterfactual, a view of the world without the reforms, is a critical component of any evaluation because it will enable us to analyse the extent to which impacts (e.g. increases in saving) are directly attributable to the reforms, and which impacts may be the result of other changes or existing trends.

The Department outlined its plans to do this type of analysis using the Department's dynamic micro-simulation model Pensim2 (see Chapter 6). However, some stakeholders felt that there needed to be greater transparency about the assumptions used in the model to ensure robustness when publishing the findings. In order to address these concerns, a follow up workshop with experts and stakeholders from across Government and academia was set up in May 2012 to share further details of the analysis and to explore alternative ways of measuring the counterfactual.

127 These are groups covered by equality legislation including age, gender, ethnicity and disability.

128 Weighting is used in statistical analysis to better reflect the relative importance of a number or variable, for example a weight may be applied if a certain group is under-represented in sample.

At the counterfactual workshop consensus was reached on how to incorporate future policy changes in to the model, such as the Single Tier state pension. Suggestions were also made for improving the modelling by using a difference in difference approach and feeding back into Pensim2 to enhance future assumptions and outputs.

The workshop also agreed on the potential key variables to flex and approaches on how to vary assumptions to test their sensitivity. While it was agreed that looking at all combinations of assumptions was unrealistic, it was agreed that two or three realistic scenarios in which high and low assumptions are combined would be modelled. This would be in addition to looking at the effects of varying each assumption in isolation.

Organisations represented at the DWP evaluation workshops

AEGON
Association of British Insurers
Aviva
B & CE
British Chamber of Commerce
Centre for Economic and Social Inclusion
Centre for Research in Social Policy
Federation of Small Businesses
Financial Services Authority
Institute for Fiscal Studies
Institute for Social and Economic Research
Ipsos MORI Social Research Institute
Jardine Lloyd Thompson
Legal & General
Lloyds Banking Group
National Association of Pension Funds
National Employment Savings Trust
National Institute of Economic and Social Research
Office for National Statistics
Pension Policy Institute
Prudential
Recruitment and Employment Confederation
Royal London Group
RS Consulting Ltd
Scottish Widows
Standard Life
The Pensions Regulator
TNS-BMRB
TUC (Trades Union Congress)
University of Bristol
University of Warwick
Which?
Zurich Financial Services

The workshops were chaired by DWP analysts and representatives from the Pensions Regulator and NEST attended both workshops. They were structured around the following questions:

- Do you think the scope looks appropriate and do the questions cover the areas of key interest? Do you think there are any significant gaps?
- Do you think there are any significant gaps in the current evidence base?
- Have you published any research recently that could help baseline these questions?
- Do you have any research planned that could help measure these questions?

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This baseline report is the first following on from the Workplace Pension Reforms Evaluation Strategy (DWP Research Report No 764). It describes the landscape before the implementation of the reforms and provides further details on the content of subsequent reports which will monitor the effects of the reforms on an annual basis during implementation. The report is structured around the eight Evaluation Questions set out in the Strategy and builds on the Department's commitment to evaluate the reforms.

The analysis draws on a range of information such as Management Information Reports, existing continuous surveys of individuals and employers, panel data, dynamic models and research commissioned by the Department and The Pensions Regulator. The report has been prepared by analysts in the Department's Workplace Pension Reforms evaluation team, with contributions from The Pensions Regulator and National Employment Savings Trust (NEST).

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