

## Research on employers' attitudes, likely reactions and responses to the workplace pension reforms

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The Pensions Act 2008 sets out a series of measures aimed at encouraging wider participation in private pension saving. The aims of these reforms are to overcome the decision-making inertia that currently characterises individuals' attitudes to pension saving and to make it easier for individuals to save for their retirement. The measures in the Act include a duty on employers to automatically enrol all eligible workers into qualifying workplace pension provision from 2012 and to provide a minimum contribution towards the pension saving for those employees who participate. The Pensions Act 2008 also sets out plans for the establishment of a new national occupational pension scheme, the personal accounts scheme, which employers can use as a qualifying scheme.

This summary is based on the findings from two pieces of research with employers<sup>1</sup>. A quantitative survey of employers was undertaken in 2007 to explore attitudes and likely reactions to the workplace pension reforms. A follow-up depth study with a sample of the employers who took part in the quantitative survey was undertaken in late 2007/early 2008 in order to explore the factors driving their responses to the reforms and their decision making processes. Jointly, this research forms part of

a wider programme of research and analysis to inform policy development, implementation and estimation of the likely impacts of the workplace pension reforms.

### Key findings

The majority (58 per cent) of employers thought the reforms were a good idea. Among those currently contributing 3% or more, 71 per cent felt the reforms were a good idea.

The majority of employers said they would be most likely to manage any additional costs of the reforms through overheads (28 per cent), increased prices (21 per cent) or lower wage increases (14 per cent). Some employers (eight per cent) said they might restructure or reduce their workforce.

Some, particularly smaller, employers (ten per cent) did say that they would encourage opt-out as a means of managing costs. However, when this issue was explored in further depth, most employers said they would draw the line at this as being unethical.

Depth interviews revealed that the perceived magnitude of the cost (in terms of total higher contributions) and external factors such as profit margins, market conditions and the behaviour of their competitors, play a crucial role in employers' strategies for managing the costs of the reforms.

Among employers currently contributing 3% or more, 86 per cent plan to maintain or even increase current contributions for existing members, and 51 per cent plan to do the same for new employees. Some (30 per cent) said

<sup>1</sup> Grant, C., Fitzpatrick, A., Sinclair, P. and Donovan, J.L. (2008) *Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. Tredwell, L. and Thomas, A. (2008) *Understanding employers' likely responses to the workplace pension reforms 2007: Report of a qualitative study*.

they might offer lower contributions for new employees, although it tended to be smaller employers that said this.

Employers currently contributing 3% or more were generally committed to pension provision, which they saw as a social responsibility as well as a recruitment and retention tool, and were keen to extend their current provision to all employees. Those who said they might offer lower contributions to some employees said they saw this as a last resort if they were unable to absorb costs in another way.

However, a small minority (six per cent) of employers contributing 3% or more said they might reduce contributions for their existing members, as they did not see the value of pensions.

When asked where they might enrol employees, 87 per cent of employers currently contributing 3% or more plan to maintain their existing schemes for current members, and 43 per cent plan to enrol all new employees into their existing schemes. When probed in more depth, these employers said they felt that enrolling all workers into their existing scheme was the simplest option.

Among those employers contributing less than 3% or not contributing to employees' pensions, around six in ten (61 per cent) employers plan to contribute at the minimum rate of 3% for current members, and a similar proportion (65 per cent) plan to contribute at the minimum rate for non-members and new employees. In the depth interviews, a small number of non-contributors said that they would contribute more than 3% if they could afford it, as they felt the minimum was not sufficient to provide a reasonable income in retirement.

The majority of employers contributing less than 3% (67 per cent) were keen to keep existing members in their existing scheme but were more likely to say they would enrol new employees and non-members into the personal accounts scheme, although two in ten (20 per cent) said they would use their existing scheme.

Among employers who currently have no pension provision, 52 per cent said they intended to contribute at the minimum required level of 3%. There was a high level of uncertainty among this group, with around four in ten (41 per cent) not knowing or not commenting on the amount they would contribute.

Employers who currently have no pension provision most commonly said they would enrol their employees into the personal accounts scheme (39 per cent). A minority (15 per cent) thought they might set up their own scheme and enrol employees into that. However, there was a great deal of uncertainty surrounding where non-providers intended to enrol employees with almost three in ten (28 per cent) saying they did not know what they would do.

## Research methodology

The quantitative survey comprised telephone interviews with a nationally representative sample of 2,399 private-sector employers in Great Britain. In-depth follow-up interviews were then conducted with 64 of these employers, across a range of sizes and industries. The research was carried out on behalf of the Department for Work and Pensions (DWP) by BMRB Ltd.

## Overview of current pension provision

Overall, around two in ten (21 per cent) employers made contributions to a pension scheme for their employees, 17 per cent provided access to a scheme but made no contributions and just over six in ten (62 per cent) employers made no pension provision for their employees.

Overall, almost two in ten (18 per cent) of all employers surveyed contributed 3% or more of gross pay to their employees' pension schemes, two per cent contributed less than 3% and one per cent contributed at an unknown rate.

The level of contributions varied by type of pension scheme, with the majority of employers who offer access to occupational pension schemes or Group Personal Pensions (GPPs) making contributions of 3% or more (84 per cent and 80 per cent respectively). By contrast, two-thirds (67 per cent) of employers offering access to Stakeholder schemes made no contributions.

The level of employer contributions also varied by firm size, with larger firms being more likely than smaller firms to contribute 3% or more, such that 65 per cent of all private sector employees worked for a firm offering access to a pension scheme with a 3% employer contribution or higher.

Results from this employer survey were broadly similar to the 2007 Employers Pension Provision Survey<sup>2</sup> in terms of the levels and types of pension provision offered by employers.

### Reasons for currently providing/not providing pensions

When asked for their primary reason for providing access to a pension scheme, the majority of employers said this was to look after their employees in retirement (31 per cent) or because it was a legal requirement (30 per cent). Around one in ten (nine per cent) said it was to recruit and retain staff, and this reason was most commonly given by larger employers.

Contributors were more likely than non-contributors to say they offered a pension in order to look after their workers in retirement. When this issue was explored in further depth, these employers said they felt they had a social responsibility to help their workers save for their retirement.

Non-contributors were more likely than contributors to say they provided a pension

primarily because it was a legal requirement (53 per cent and 12 per cent respectively). In the depth interviews, these employers said they did not value pension provision or consider it to be an effective recruitment and retention tool.

Amongst employers without pension provision, the most common reasons given for not providing access to a pension were: that the organisation was too small (32 per cent), that it was too costly (13 per cent), that staff did not want a pension (11 per cent) or that the firm had mainly part-time or temporary staff (six per cent).

Depth interviews revealed that some decisions not to offer any pension provision were underpinned by a negative or sceptical attitude towards pension provision in general. The perceived cost of the provision was also a factor, along with a view that it was an individual's responsibility to provide for their retirement.

### Eligibility and joining mechanisms

All employers with an open pension scheme were asked whether they had any eligibility criteria in place for joining the scheme. Just over half (55 per cent) of these employers offered an open pension scheme where all employees were eligible to join. Two-thirds (33 per cent) required their employees to have been employed for a minimum length of time before being eligible to join the pension scheme, and four per cent of employers said their schemes were only open to senior management.

Stakeholder pension schemes were most likely to be available to all employees, with 60 per cent having no eligibility criteria in place to join. GPP schemes on the other hand were most likely to require a minimum length of service before joining, with approaching six out of ten (58 per cent) of GPPs using this eligibility criterion.

Employers were asked how their employees currently join the organisation's largest open pension scheme. Overall, 37 per cent of employers asked their employees to complete

<sup>2</sup> Forth, J. and Stokes, L. (2008) *Employers Pension Provision Survey 2007*. DWP Research Report No. 545.

a detailed form, seven per cent used a pre-completed form, 32 per cent required only a yes/no declaration and six per cent said they used what they referred to as some form of automatic enrolment.

## Participation rates

Across all employers providing access to a pension, on average 42 per cent of eligible employees had joined a pension scheme.

Participation rates were highest in occupational pension schemes (76 per cent participation), followed by GPPs (69 per cent participation) and contributions to personal pensions (65 per cent participation). Stakeholder pension schemes achieved on average only 24 per cent participation.

This variation in take up between scheme types is likely to reflect the variation in employer contribution levels between schemes, since pension participation was significantly higher in schemes attracting an employer contribution (67 per cent), than those with no employer contribution (12 per cent).

Depth interviews revealed that employers with low participation rates were commonly of the opinion that this reflected the low level of employee wages.

## Attitudes and planning

Approaching half (46 per cent) of employers had heard about the reforms prior to being sent information in relation to this research. Larger organisations were more aware of the reforms, with 91 per cent of employers with 500 or more employees having some awareness of the reforms, compared with 43 per cent of employers with fewer than five employees.

The majority of employers across all sizes (58 per cent) felt the reforms were a good idea. Seven in ten (70 per cent) employees worked for these employers. Larger employers and those already contributing 3% or more to employees'

pension were more likely to think the reforms were a good idea. Among large employers with 500 or more employees, almost nine in ten (89 per cent) thought the reforms were a good idea. Among employers currently contributing 3% or more to their employees' pensions, 71 per cent thought the reforms were a good idea.

Employers had generally not started taking action in terms of formal planning for the reforms, and commonly felt that they would defer such activities until 12-18 months prior to implementation, to fit with their usual business planning cycles. However, some employers had started to have informal internal discussions, and there was some evidence of employers already taking action, such as marketing their schemes to boost membership, or introducing contributions ahead of the reforms. When provided with currently available information about the reforms, all employers were able to think through their likely strategies and reactions.

## Managing the costs of the workplace pension reforms

The majority of employers (79 per cent) thought the reforms would mean an increase in the total pension contributions their organisation would have to make. Fourteen per cent of employers said that they thought the reforms would not result in an increase in total pension contributions for their organisation.

Employers currently contributing 3% or more to employees' pension schemes, those offering occupational pension schemes, and those who said at least three-quarters of their workforce had joined their pension scheme, were most likely to say that the reforms would not result in an increase in contributions.

Some employers said, when interviewed in depth, that they were not anticipating an increase in costs because they expected the majority of their (largely transient and low-paid) workforce to opt out.

All employers were asked how they would be most likely to manage any additional costs of the reforms, regardless of whether they anticipated increased costs. The majority of employers said they would be most likely to absorb any increase through overheads (28 per cent), increased prices (21 per cent) or lower wage increases (14 per cent). Some employers (eight per cent) said they might restructure or reduce their workforce in order to cope with costs.

Some, particularly smaller, employers (ten per cent) did say they would encourage opt-out as a means of managing costs. However, when this issue was explored in further depth, most employers, even those that were concerned about the costs of the reforms, said they would draw the line at this as being unethical.

When probed in more depth, it was evident that the cost management strategy employers thought they would adopt was not a straightforward decision and would be dependent on the perceived magnitude of the additional costs (in terms of total higher contributions) and external factors such as profit margins, market conditions and the behaviour of their competitors.

### **Likely response of employers currently contributing 3% or more**

Among those employers currently contributing 3% or more, around nine in ten (86 per cent) said they plan to maintain, or even increase, contributions for current members and over half (51 per cent) intend to give their current levels of contributions, or higher, to new employees.

Three in ten (30 per cent) employers said they might reduce contributions for new employees, although it tended to be the smaller employers that said this. An analysis excluding micro-employers (with one to four employees) shows that just over two-thirds (64 per cent) of employers with five or more employees plan to offer their existing contribution levels or higher to new employees and only 17 per cent of these

employers said they might reduce contributions for new employees.

Employers currently contributing 3% or more were generally committed to pension provision, which they saw as a social responsibility as well as a recruitment and retention tool, and were keen to extend their current provision to all employees. Those who said they might offer lower contributions to some employees said they saw this as a last resort if they were unable to absorb costs in another way.

However, a small minority (six per cent) of employers contributing 3% or more said they might reduce contributions for their current employees. Depth interviews revealed that such employers were not committed to pension provision and were not convinced about the value of a pension scheme as a means of recruiting and retaining staff. Some believed their employees saw a bonus as being more valuable than a contributory pension scheme.

Many employers said they were keen to enrol employees into their existing pension schemes. Among those currently contributing 3% or more, around nine out of ten (87 per cent) plan to maintain their existing provision for current members, and over four out of ten (43 per cent) plan to enrol all new employees into their existing scheme.

In the depth interviews, such employers said they felt that enrolling all workers into their existing scheme would be the simplest option. There was also strong commitment to existing schemes that were felt to be working well.

### **Likely response of employers currently contributing less than 3%, or not contributing**

Among those contributing less than 3% or not contributing to employees' pensions, around six in ten (61 per cent) employers plan to contribute at the minimum rate of 3% for current members, and a similar proportion (65 per cent) plan to contribute at the minimum rate for

non-members and new employees. However, some (13 per cent) said they would offer a higher contribution rate for existing scheme members if they could afford it, as they felt the minimum was not sufficient to provide a reasonable income in retirement.

When considering scheme choice, the majority of employers contributing less than 3% (67 per cent) said they would keep existing members in their existing scheme. Twenty per cent said they would enrol non-members and new employees in their existing scheme while approaching half (46 per cent) said they would enrol non-members and new employees into the personal accounts scheme. In the depth interviews, those employers that said they would enrol their employees into the personal accounts scheme said they felt this would be administratively simpler and more cost effective.

### Likely response of employers not providing access to a pension scheme

Among employers who currently have no pension provision, 52 per cent said they intended to contribute at the minimum required level of 3%. There was a high level of uncertainty among this group, with around four in ten (41 per cent) not knowing or not commenting on the amount they would contribute.

Employers who currently have no pension provision most commonly said they would enrol their employees into the personal accounts scheme (39 per cent). A minority (15 per cent) thought they might set up their own scheme and enrol employees into that and 28 per cent said they did not know what they would do.

Depth interviews with some of the non-providers who thought they might set up their own scheme revealed that they might do so because they felt it would help establish their company identity, would give them greater control over their scheme and would be more cost-effective. However, they were at a pre-planning stage

and considered that with the provision of further information about the personal accounts scheme they may reconsider their views.

The non-providers interviewed in depth that had not made any decision about future pension provision were waiting for more information on the personal accounts scheme and said they would consult with their financial advisers.

### Attitudes to postponement periods and phasing

Attitudes to postponement periods<sup>3</sup> and phasing<sup>4</sup> were discussed in the depth interviews.

Employers commonly felt that a postponement period would not be of significant value as they generally only employ relatively small numbers of new people at a time and so the cost savings are likely to be minimal.

However, some employers with a large casual workforce or a high turnover of employees welcomed the idea of a postponement period. In the absence of more information on the length of the postponement period and the details of the contributions required, they saw great value in a postponement period of six months as they felt that most of their employees would have left the company before automatic enrolment would be required. These employers commonly offered Stakeholder pension schemes with little or no take-up.

Attitudes to phasing also varied. Employers with high levels of participation and those

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<sup>3</sup> Under the Government's reforms, employers already making contributions above the 3% minimum can choose to postpone automatic enrolment for new members to encourage them to continue to offer these high-contribution schemes.

<sup>4</sup> Employers who operate qualifying money purchase schemes, including the personal accounts scheme, will have the opportunity to phase in minimum contributions over a transitional period as a means of managing the costs of the pension reforms.

that budgeted for 100 per cent participation considered that the phasing arrangements were unnecessary for them. By contrast, employers with pension schemes with low or medium participation rates, non-contributors and non-providers, welcomed the proposal for phasing as they considered that such arrangements would help them to better manage the costs of the pension reforms.

However, there were some instances of employers in this position considering that the company should get used to the increased costs with immediate effect.

### Attitudes to the proposed compliance regime

Overall, employers did not have any major issues with the proposed compliance regime, including the use of reminder letters and penalties, as long as they did not become too heavy handed and burdensome.

More than nine in ten employers (92 per cent) agreed that a letter was a suitable initial measure to deal with non-compliant employers.

Approaching six in ten employers thought that a fine for employers who remained non-compliant without sufficient explanation was an appropriate action.

It was felt that one of the key reasons for non-compliance would be a lack of understanding of the compliance rules. Employers were keen, therefore, for help and advice to be offered once reminder letters were sent out to give them the opportunity to rectify the problem before having to pay penalties.

### Sources of advice and information

The majority of employers (84 per cent) said they were likely to seek external advice about how they might respond to the new pension requirements.

An accountant or an Independent Financial Adviser (IFA) were the most commonly cited external sources of advice on how to respond to the pension reforms. These were also the most commonly cited sources of advice on compliance with the employer duties.

Employers said they wanted straightforward information outlining the details of the pension reforms and the options available to them in order to make their decisions. Some employers were also keen for the Government to hold seminars where issues could be discussed.

### Provision of information to employees

Depth interviews revealed that employers expect to play some role in communicating information about the reforms to their employees but generally did not want the burden, in terms of time and cost, of producing information on the reforms for staff. They would be looking for 'ready to use' information booklets that they can send on to staff, provided by the Government or pension providers.

Employers said they would supplement this by running presentations or face-to-face meetings alongside the distribution of written information. However, employers were worried about being perceived to be providing financial advice and said they would therefore ask advisers to carry out this function.

Among those employers who said they would enrol at least some of their employees into the personal accounts scheme, around nine in ten (93 per cent) said they were willing for eligible employees to receive information by post at their workplace about the personal accounts scheme, and just over eight in ten (83 per cent) were willing for their employees to access information or manage their personal account online at work.

The full reports of these research findings are published by the Department for Work and Pensions (ISBN 978 1 84712 463 0. Research Report 546 and ISBN 978 1 84712 464 7. Research Report 547. December 2008).

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