Summary of Findings

New evidence on employers' preparations for auto-enrolment, collected alongside the NAPF's Annual Survey 2011, shows that:

- Preparedness for auto-enrolment tends to be polarised: employers either felt prepared across a number of different areas, or unprepared for all of them. Only about a quarter of the responding employers felt more prepared in some regards than in others.
- The vast majority of responding employers, and particularly the larger ones, know when they have to begin auto-enrolment: 86% of employers with more than 1,000 employees already knew their staging date.
- The area where employers are currently least prepared is employee communications: only 13% of employers felt they were prepared in this regard.
- 55% of respondents do not currently auto-enrol any of their staff and would have to introduce auto-enrolment in order to comply.
- 45% of respondents said they would use their current scheme for auto-enrolment compared to 52% in 2010.
- There was an increase from 4% in 2010 to 11% in 2011 of those who said they would use their current scheme *and* NEST or another new scheme. There is evidence that, as staging dates approach, employers who previously thought they would use their current scheme for auto-enrolment now plan to use a new scheme instead.

Introduction

The objectives behind the 2012 pension reforms are clear: getting more people to save and getting people to save more. Two key factors will influence whether these goals are achieved: the number of people remaining auto-enrolled rather than opting out, and the number of employers who currently offer more generous pension provision to their staff who choose not to level down to the statutory minimum.

Recent NAPF research[1] suggested expected opt-out rates may have increased to 1 in 3 individuals, compared to the 1 in 4 expected from DWP research carried out before the downturn,[2] with low trust in the pensions industry and affordability concerns the main drivers behind people's decision to opt out. Encouragingly though, half of those who would stay in said that they felt it was a good deal to get the employer contribution, while 44% felt it was the prompt they needed to start saving for their retirement.

Employers' preparations for auto-enrolment, in terms of their practical preparations for smooth administration and implementation, but also in terms of their communications and messaging to their staff on the benefits of auto-enrolment and the importance of saving for retirement, will play a key role in the success of the reforms.

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[1] NAPF, Workplace Pensions Survey, Spring 2012

[2] Department for Work and Pensions, Individuals' likely attitudes and reactions to the workplace pension reforms 2007: Report of a quantitative survey.

The NAPF's research with employers, carried out alongside the Annual Survey 2011, probed whether employers know what is expected of them, whether they are prepared to comply with the new legal requirements, whether they expect to maintain their existing arrangements for those being auto-enrolled or switch to a different scheme, and whether they are communicating the importance of these changes to their employees.

The research also compares the 2011 findings with earlier findings from the NAPF Annual Survey and from other surveys. It finds some shifts in employers' plans and expectations as they get closer to their staging dates.

The fieldwork for the NAPF Annual Survey took place between 18 July and 2 September 2011 – a couple of months before a further delay in staging dates was announced in the Chancellor's Autumn Statement. 737 fund members were invited to take part, tables and figures show the number of respondents for each question. It is important to note that the NAPF membership tends to be made up of larger schemes, and that therefore the data presented in this survey also focuses on larger schemes where the majority of members are.

Are employers prepared for auto-enrolment?

The level of preparation can be judged against three key milestones: whether employers are informed about the new legal requirements, whether they have a plan or process in place and whether they are complying with the new requirements. Surveys typically ask employers how prepared they feel against these measures, or ask employers what they have actually done already to determine the level of their preparations for auto-enrolment.

The NAPF Annual Survey asked respondents to rate how prepared they felt they were, on a scale of 1 to 10, in terms of the following statements:

- Knowing what scheme to use and whether it meets the minimum requirements
- Working out which staff to auto-enrol
- Making sure payroll and admin systems are ready
- Communicating with staff

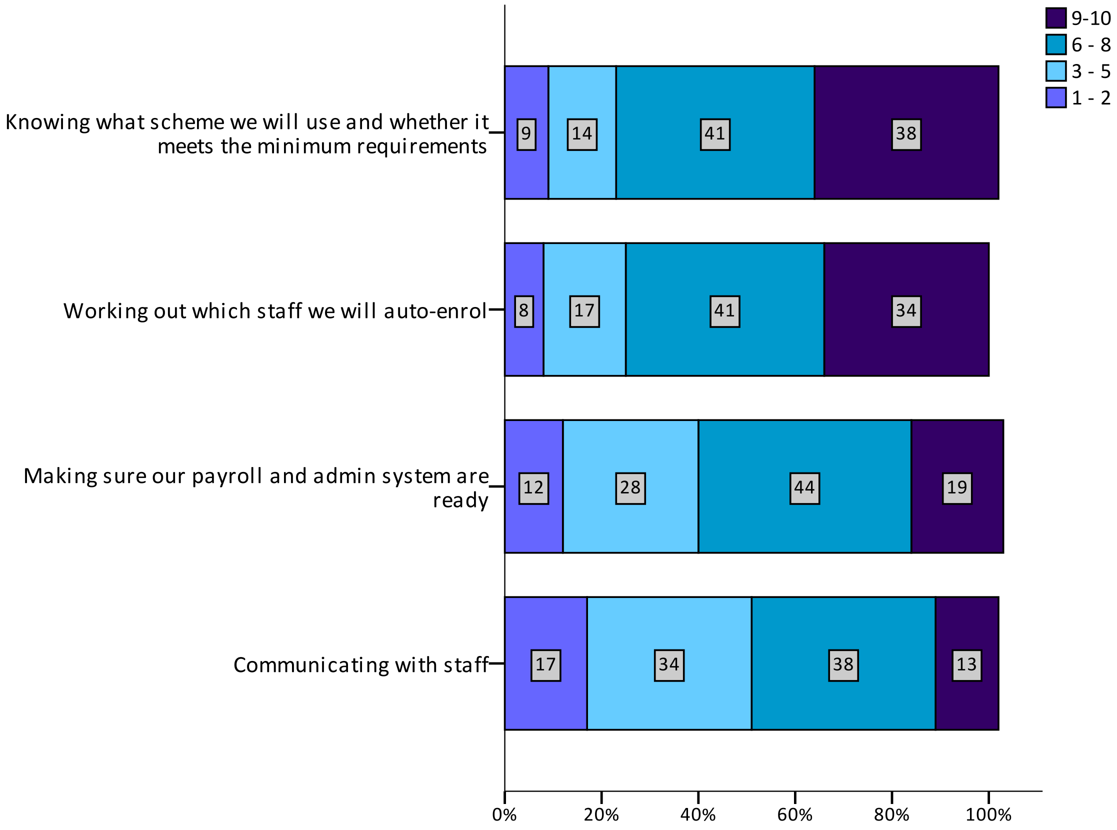
Figure 1 shows how employers assessed themselves. They felt best prepared in terms of deciding which scheme they were planning to use for auto-enrolment. This step involves deciding into which scheme to auto-enrol staff (the current scheme or opening a new scheme / using NEST) and, if going with the current scheme, making sure that it meets the minimum requirements to be a qualifying scheme.[3] 38% of respondents judged themselves as 9 or 10 out of 10, which we have interpreted as meaning they felt well prepared in this regard.

At the other end of the spectrum, only 13% felt a similar level of being prepared in the area of employee communications. Employers might feel that they want to get the legal requirements and administration right in the first place (such as deciding which scheme to use and how to work out which staff to auto-enrol), and that they will address communications closer to their staging date.

[3] For guidance provided by the Regulator, see Pension Schemes under the new employer duty.

While this is understandable, the importance of employee communications for the success of the overall reforms should not be underestimated. The DWP's communication plans around auto-enrolment are due to begin in early 2012, and ensuring that employers feel well equipped to communicate the purpose and benefits of the reforms to their workforces should be a key priority, particularly as wider research evidence suggests employers are the most trusted source of information on pensions. Research commissioned by the NAPF showed that 28% of respondents trusted their employer most when it came to pensions, compared to 17% who trusted government the most and 9% who said they trusted insurance companies or banks the most.[4]

Figure 1: How prepared do employers feel?



Base: 193-199 respondents

The average level of preparedness in terms of communications is around a quarter lower than the level of preparedness relating to employers knowing which scheme to use, as Table 1 shows. Employers feel relatively well prepared working out which staff to auto-enrol. However, they will need systems in place to allow them to update this just before their staging date, because eligibility is determined by age and salary, which is likely to change between their first internal assessment of eligibility and the actual staging date.

[4] NAPF, Workplace Pensions Survey, March 2010

Table 1: Average level of preparedness (mean)

Knowing what scheme to use and whether it meets the minimum requirements	7.3
Working out which staff we will auto-enrol	7.1
Making sure our payroll and admin systems are ready	6.0
Communicating with staff	5.5

Base: 193 - 199 respondents

Looking at the small number of respondents who felt already well prepared (the 13% who responded 9 or 10) in terms of communications, the majority planned to use their current scheme for auto-enrolment (60%). Again, only considering those who felt prepared for employer communications, 60% are currently not auto-enrolling any of their employees and would have to start.

At the other end of the spectrum, of those who do not feel prepared in terms of employee communications (the 17% who responded 1 or 2), only 31% are planning to use their current scheme for auto-enrolment. 22% of them said that they would continue to keep their current scheme on an opt-in basis, but would use a new scheme for auto-enrolment. 78% of this group said that they needed to start auto-enrolling (ie they did not auto-enrol any staff currently) compared to 55% of all respondents.

Prepared across the board?

A key question is whether those employers who feel prepared in one area also feel prepared in others. Looking at the answers given, the majority of respondents gave relatively similar answers to all four questions.[5] Around 60% of all respondents were well prepared across the board[6], and 15% were not very well prepared across the board. The remainder varied in their assessment of how prepared they were.

What have employers done so far?

Turning to what employers have actually done already (rather than how prepared they feel), the first step employers should take is to check when their staging date is (on the Pensions Regulator's website). While smaller employers will be required to introduce auto-enrolment later than larger ones, and therefore are likely to lag them in terms of their preparations, employers of all sizes should have looked up their staging date – if only to confirm that they have several years before they need to introduce auto-enrolment for their staff. To give smaller firms 'additional breathing space', the Department for Work and Pensions announced in January 2012 a new timetable for smaller employers. Employers with 250 and more employees were not affected by the changes (they will still be required to auto-enrol their staff between October 2012 and February 2014), but smaller employers will be given more time (with the smallest employers being required to auto-enrol their staff by April 2017).

[5] 'Similar answers' are defined as a standard deviation of 2 or less across the four questions.
[6] 'Well prepared' is defined as scoring 20 or more across all four questions.

Table 2 shows that, as expected, larger companies are more likely to know their staging date. For employers with 250 and less employees, 55% did not yet know when they have to start auto-enrolling their employees, for employers with between 251 and 1,000 employees this falls to 32%, and for the largest employers (more than 1,000 employees) this falls to 14%. However, smaller companies still have some time before they are required to start auto-enrolling their employees, in particular with the delay for small businesses announced at the end of November.

Table 2: Knowledge of staging date by number of employees

Number of employees	% of respondents who did not know the staging date
250 and less	55
251 to 1,000	32
More than 1,000	14

Base: 221 respondents

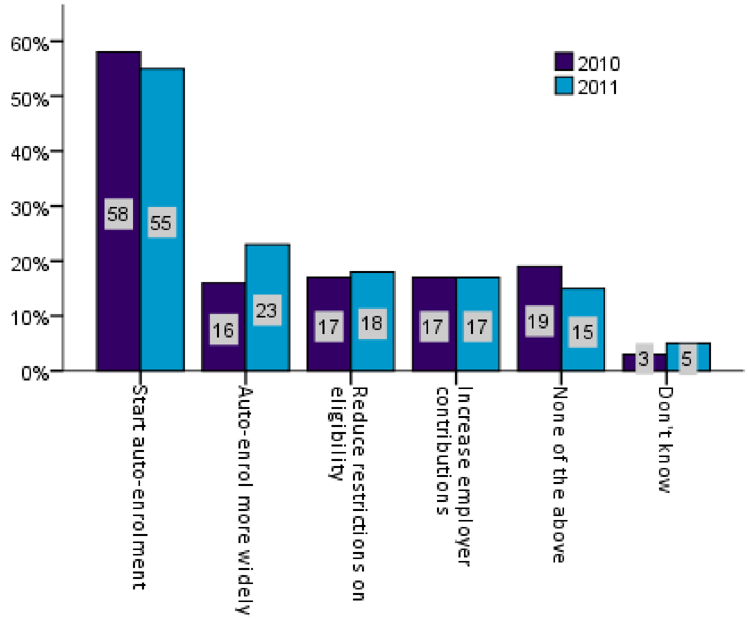
Once an employer has established when they have to start auto-enrolling their employees, the next step is to assess what action needs to be taken to comply with the auto-enrolment legislation, regulations, and guidance. The most significant decision is which scheme to use, in particular whether to use an existing scheme or auto-enrol into a new scheme.

Figure 2 shows how respondents replied when given the following options to choose from:

- We would auto-enrol all employees into our current scheme at the current contribution / accrual rate.
- We would auto-enrol all employees into our own scheme but to contain costs we would provide lower levels of contributions / accrual rates for future years for new members.
- We would auto-enrol all employees into our own scheme but to contain costs we would provide lower levels of contributions / accrual rates for future years for both existing and new members.
- We would keep our existing scheme in its current form on an opt in basis but for employees that do not join, we would auto-enrol them into the NEST / another new scheme.
- We would enrol all new employees into NEST
- None of the above
- Don't know

Compared to the two previous years, the picture has not changed greatly, which is not surprising given that scheme rules (which determine what further action would need to be taken to comply with the reforms) only change slowly. Slightly more than half of respondents still have to start auto-enrolling any of their employees. Around a fifth said that they were already using auto-enrolment, but would have to start to use it more widely. Another fifth was not auto-enrolling their employees, and in addition had restriction on eligibility for joining their pension scheme (e.g. a minimum joining age higher than the one required under auto-enrolment). The jump in the number of respondents who said they will have to auto-enrol more widely might be down to more schemes having checked their scheme rules and the legal requirements and realising what they have to do to comply.

Figure 2: Changes to comply with the 2012 pension reforms



Base: 239 for 2011, 227 for 2010

Figure 3 is an illustration of how these findings from the NAPF Survey (shaded in purple) sit with other surveys which have asked similar questions. The chart takes the most popular response to a given question and shows responses by employer size (vertical axis). The level of preparedness is shown on the horizontal axis, ranging from having done nothing so far, to complying with the reforms.

The left-hand side of the figure identifies groups of employers who have done nothing at all: a survey conducted by Punter Southall, for example, found that in April 2011, 69% of pension schemes had not yet begun to prepare for the pension changes.[7] This rose to 79% for micro employers.[8] Similarly, 74% of all employers in a tPR study reported in August 2011 that they had not yet discussed the issue[9] and 37% of employers with more than 500 employees in a JLT study said they did not know how to comply with the reforms.[10]

86% of respondents with more than 1,000 employees in the NAPF Survey knew their staging date – a figure consistent with a survey conducted by Hymans Robertson. In June 2011, 76% of respondents said that they knew when their staging date was. HR Directors were more likely than finance directors to say that they knew when their staging date was.[11]

Once an employer has established when their staging date is, further actions and plans need to be discussed. 38% of smaller employers (50-249 employees) have discussed, but not drawn up plans.[12] Almost a third (32%) of employers with between 5,000 and 6,999 employees have set their business

[7] Punter Southall DC Survey, 2011
[8] The Pensions Regulator, Employers' awareness, understanding and activity relating to workplace pensions reform, 2011
[9] The Pensions Regulator, Employers' awareness, understanding and activity relating to workplace pensions reform, 2011
[10] The JLT 250 Club, Providing meaningful employee benefits research for major employers, 2011
[11] Hymans Robertson, Auto-enrolment: time for action 2011
[12] The Pensions Regulator, Employers' awareness, understanding and activity relating to workplace pensions reform, 2011

objectives around auto-enrolment.[13] 21% of larger employers (more than 7,000 employees) have set their business objectives, and another 14% have gone a step further and are working on the financial design.[14] 54% of employers with at least 500 employees have consulted externally.[15]

Few employers, even among larger ones, have finalised their plans and put all processes in place: recent research commissioned by Standard Life found that 93% of larger employers do not have firm plans.[16]

In summary, Figure 3 shows that, unsurprisingly, larger schemes tend to be better prepared than smaller ones. This is to be expected, since smaller employers still have some way to finalise plans and processes for the introduction of automatic enrolment, with the smallest ones not required to auto-enrol their staff until April 2017.

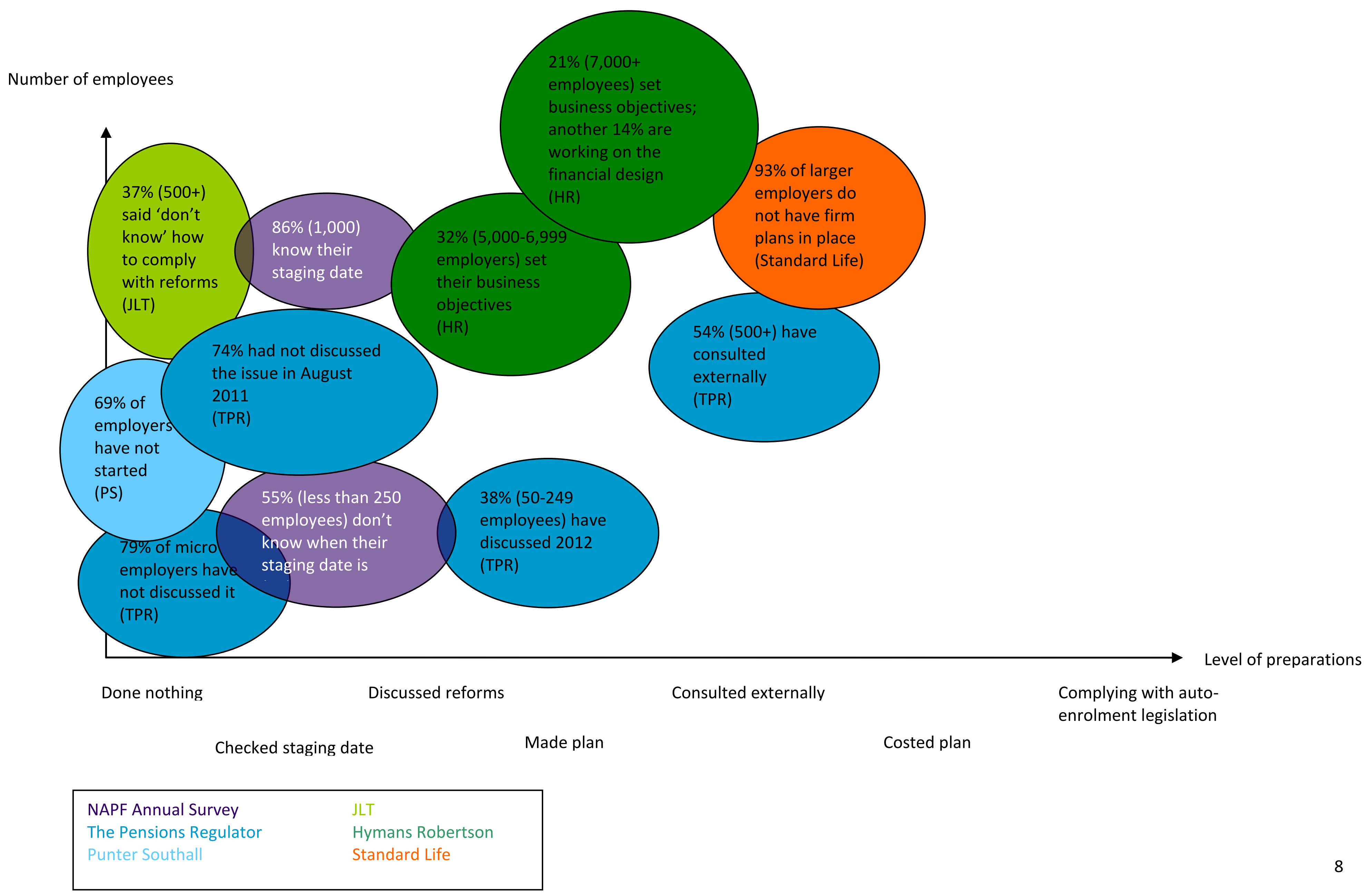
[13] Hymans Robertson, Auto-enrolment: time for action, 2011

[14] Hymans Robertson, Auto-enrolment: time for action, 2011

[15] The Pensions Regulator, Employers' awareness, understanding and activity relating to workplace pensions reform, 2011

[16] Standard Life, Press Release

Figure 3: How prepared are employers? Largest group responses from different surveys by employer size



Are those who are getting ready to auto-enrol levelling down?

Together with the opt-out rate, the type of scheme employers will use for automatic enrolment will determine how successful the reforms are in increasing savings for retirement. If employers are deciding to lower the benefits they are currently offering their employees, total pension saving could decline, even if the number of savers rises. Therefore, a key question when considering the aggregate impact of the reforms is: are those who are getting ready to auto-enrol deciding to lower their benefits and level down?

The NAPF Annual Survey asked how employers would react to the statutory minimum requirements for auto-enrolment. Respondents could choose one of the following options:

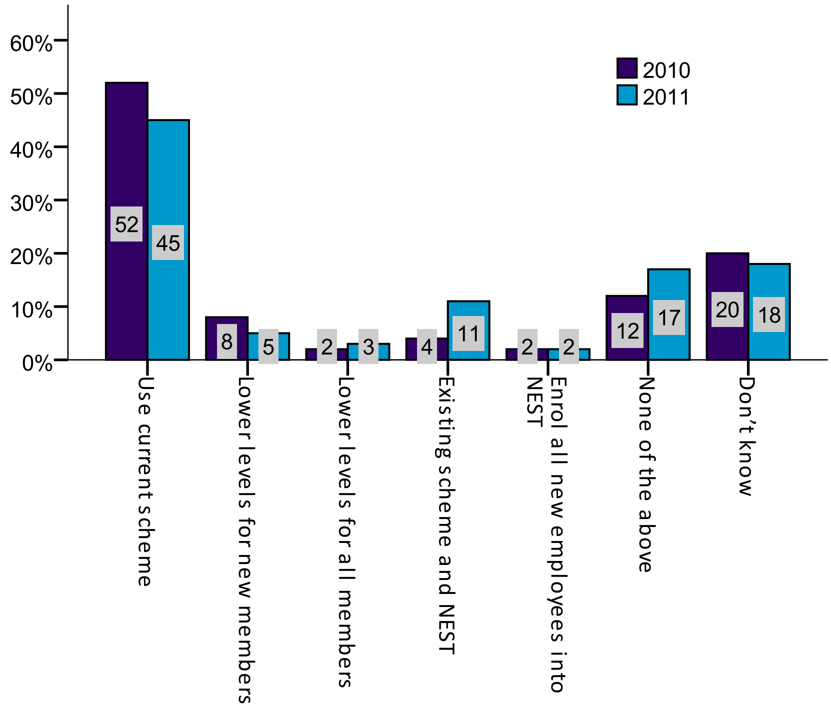
- We would auto-enrol all employees into our current scheme at the current contribution / accrual rate.
- We would auto-enrol all employees into our own scheme but to contain costs we would provide lower levels of contributions / accrual rates for future years for new members.
- We would auto-enrol all employees into our own scheme but to contain costs we would provide lower levels of contributions / accrual rates for future years for both existing and new members.
- We would keep our existing scheme in its current form on an opt in basis but for employees that do not join, we would auto-enrol them into the NEST / another new scheme.
- We would enrol all new employees into NEST.
- None of the above
- Don't know

The NAPF Annual Survey found that slightly less than half of respondents were planning to use their current scheme for auto-enrolment; only 5% said they would alter their current scheme to offer lower benefits or contributions for new members, and 3% to offer lower benefits or contributions for everyone (Figure 4). But a large proportion (17%) said 'none of the above' and a further 18% were still undecided, so there remains scope for larger numbers of employers to level down than the figures might currently suggest.

Comparing the results to 2010, the proportion of schemes which said that they will keep their current scheme to auto-enrol their employees has fallen, and the most significant increase has been in the group who said they would keep their current scheme on an opt-in basis, and use NEST / another new scheme for auto-enrolment. Around a quarter of respondents who said they were going to use a new scheme had previously said that they would use their current scheme.[17]

[17] It is possible to link 14 out of the 25 responses for this question to last year's Survey – 6 out of those 14 (43%) said back then that they would use their current scheme for auto-enrolment.

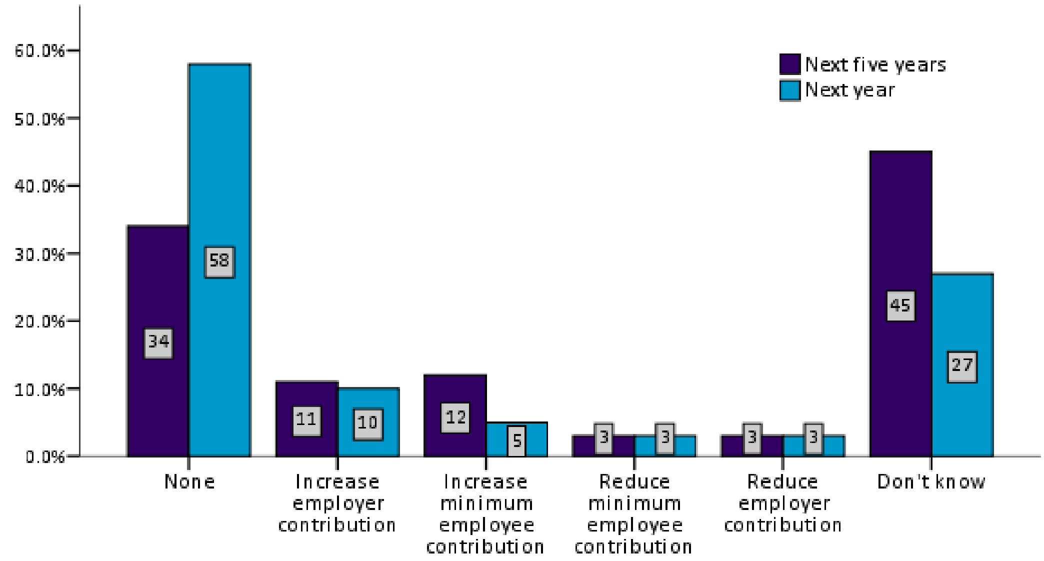
Figure 4: Reaction to auto-enrolment at statutory minimum



Base: 239 for 2011 and 227 for 2010

Looking at DC schemes in particular, over half of respondents (58%) said they would not make any changes to their scheme over the next year (Figure 5). 10% of respondents said they would increase the employer contribution over the next year, and 5% said they would increase the minimum employee contribution. Only 3% each said they would reduce the employer or minimum employee contribution. Looking at plans over the next five years, employers are less certain what they will change (45% answered don't know), and fewer respondents though they would not make any changes (34%).

Figure 5: Expected changes over the next year and over the next five years



Base: 194 respondents

Conclusions

The results from the NAPF Annual Survey show that a lot of employers are still in the early stages of preparing for the introduction of auto-enrolment, especially those smaller employers who are furthest away from their staging dates. The Department for Work and Pensions and the Pensions Regulator are rightly targeting activity at those employers who will need to introduce auto-enrolment in 2012 and 2013 to make sure that they are adequately prepared for it. It is positive that a large number of employers are already aware of their staging dates.

Employers responding to the survey were the least well prepared in the area of communicating the reforms to their employees. It is important that this is monitored as time progresses to make sure employers are putting plans in place as their staging date approaches. The Department for Work and Pensions and The Pensions Regulator need to ensure that employers are supported sufficiently in communicating the implications of the 2012 pension reforms to their staff.

On a positive note, relatively few employers say that they will explicitly level down, but quite a few are still undecided, and the results from 2011 have demonstrated that as staging dates approach plans can quickly change. The 2012 results will shed further light on the eve of the very largest employers beginning to auto-enrol.