automatic enrolment

NAPF
Securing the future of pensions

contents

Foreword

Automatic enrolment is a good news pensions story for millions of workers in the UK.

Currently, less than half of employees are members of a workplace pension scheme. Automatic enrolment offers the best chance of getting people into the habit of saving for their retirement.

Employers have taken the opportunity to breathe new life into their pension arrangements and employees have been overwhelmingly supportive, with opt out rates much lower than we expected.

The NAPF has supported automatic enrolment from the beginning and we are pleased to see it get off to such a successful start.

But the hardest bit is yet to come. We wanted to hear from employers who have begun automatic enrolment and the employees it has affected, to see what is working best and where the challenges lie. This report brings those findings together and uses them to provide practical guidance for employers at the start of their journey.

The NAPF has been doing its bit to help employers. We launched an automatic enrolment website in February 2013 to help guide employers through the complicated rules and regulations.

Our work on automatic enrolment, together with our launch in 2009 of the Pension Quality Mark and more recently of the PQM READY for master trusts, is a core element of our wider focus on governance and standards in DC pensions.

As millions of people are brought into a pension scheme we need to make sure that those schemes can deliver good outcomes for their members. The NAPF strongly believes that scale and good governance are key to achieving this.

This report makes a valuable contribution to the debate about automatic enrolment and quality in DC schemes. I hope that employers approaching their automatic enrolment staging date will find the guidance helpful. I would like to thank all of those who participated in this research.

Joanne Segars
Chief Executive,
National Association of Pensions Funds

Executive summary

Automatic enrolment is a major reform to the UK workplace which will bring millions of people into employer-sponsored pension schemes. The NAPF commissioned this research to explore our members' experiences of starting automatic enrolment and to hear what employees who have been automatically enrolled think of their new pension rights. Finally, we wanted to consider what lessons could be learned from these early stages of automatic enrolment and to offer practical tips for smaller employers.

It is clear that both employers and employees support the reform. For NAPF members it is a chance to bring more employees into their existing pension arrangements and far fewer employees have opted out than expected.

The employers that we interviewed said the following:

- Preparation is the key to successful implementation. In some cases, employers started planning years in advance. Smaller employers need to start planning as soon as possible.
- Communications are an essential component of automatic enrolment. Employers typically put strong emphasis on clear and engaging communications.
- The automatic enrolment regulations are too complex. This complexity is a disincentive for employers to go above the minimum.

Employees told us:

- They welcome the fact that they have been automatically enrolled. They see pension saving as an important and positive thing to do.
- Employees are still not very engaged with pensions. Employees rely on their employer to pick a good scheme and manage it for them.
- Although they are happy to be saving, many employees are aware that the current minimum contribution rates are probably too low. There is an appetite amongst some workers to save more.

Looking ahead, there are challenges for government and the industry to make sure that automatic enrolment continues to succeed. It is necessary to reduce the complexity of regulations and the Government's current proposals to simplify some technical regulations are popular. In the longer term, after automatic enrolment has been fully introduced, it should be simplified on a principles-based approach.

Automatic enrolment also poses searching questions about the quality of the schemes into which members are enrolled. Both the Government and the industry need to promote high quality pension schemes.

Introduction

Automatic enrolment has changed the UK workplace forever. Once implemented, the reforms mean that every employer will have to provide a pension to their workers and pay minimum contributions.

By October 2013, around two million people are expected to have been automatically enrolled, and by the time of the next general election in 2015, 4.3 million workers covering over 50,000 employers will be in a pension scheme, or saving more, as a result of these reforms.

The first steps towards automatic enrolment were taken over 10 years ago. The Pensions Commission, under the chairmanship of Adair Turner (now Lord Turner), was established in December 2002 to review the regime for long-term saving in the UK. The legal framework for automatic enrolment was set out in the Pensions Act 2008, with further changes after the current Government entered office in 2010.

A broad political consensus has allowed automatic enrolment to be implemented, and the NAPF supports that consensus. These reforms are an essential part of the solution to the UK's savings crisis.

The NAPF has been closely involved in moving automatic enrolment from concept to reality. In particular, we have worked closely with the Government on regulations supporting automatic enrolment. We argued for many easements to support its implementation, including an optional waiting period for employers. Many of the NAPF's recommendations have been accepted by the Government in its recent consultation on technical easements[1]. The NAPF continues to be a voice for further simplifications to help employers and providers implement automatic enrolment.

The automatic enrolment reforms were introduced one year ago, in October 2012, though some employers opted to start earlier. Expectations were mixed, with some (including the NAPF and the Government) predicting that up to 40% of workers might opt out[2].

Rather than being a cause for concern, automatic enrolment is turning out to be a good pension story. Opt out rates have been low. Recent research by the Government suggests that opt out rates have averaged around 9%[3]. We are also seeing employers' attitudes change. Research by The Pensions Regulator found that more employers are getting behind the aims of the policy. The proportion of employers who think automatic enrolment is a good idea for workers had increased to 80% in summer 2013[4].

Our experience mirrors these findings. NAPF members tend to have a history of providing good quality pensions. They are enthusiastic about their pension arrangements, often seeing pensions as a core component of their employee remuneration and benefits package.

1. Department for Work and Pensions, Technical changes to automatic enrolment, March 2013
2. Money Marketing, 'One in three will shun auto-enrolment', 20 October 2011
3. Department for Work and Pensions, Automatic enrolment opt out rates, August 2013
4. The Pensions Regulator, Employers' awareness, understanding and activity relating to workplace pension reforms, August 2013

Methodology

The fieldwork consisted of the following:

- Interviews with 14 employers conducted between 31 July and 5 September. These were NAPF members and had implemented automatic enrolment before the interview. Employers covered a range of sectors including retail, manufacturing, utilities, financial services, education and healthcare.
- Interviews with seven representatives of the wider pensions industry, including providers and pensions consultants.
- A scheme member survey, distributed to employees of two large employers for completion online. These companies had already automatically enrolled their staff into a pension scheme. Fieldwork was carried out between 29 August and 9 September and 194 individuals completed the survey.
- Research with employees, commissioned by the NAPF to gain insight into scheme members' experiences. The discussions were conducted in London on 4 September 2013. Discussion was a mix of one-to-one interviews and a focus group.
- The NAPF Workplace Pension Survey run by Populus, which was in the field between 6 and 8 September and had online responses from 995 people.

Participants' experiences of automatic enrolment

- **456,100** people employed.
- **122,335** people automatically enrolled.
- **14,425** people opted out.
- **355,346** now saving in a pension scheme.

This report goes beneath the headlines, exploring the underlying trends so far and how employers have been able to get such good results. We interviewed 14 employers who began automatically enrolling their employees in the first year. We also interviewed a range of providers and advisers to better understand the wider industry's views. These employers' experiences have been complemented by surveys and focus groups exploring how automatic enrolment has been for their employees.

The employers covered in this research employ almost 500,000 people. They had good participation rates in their pension schemes before automatic enrolment, with an average of 54% of employees saving through a workplace pension. Many used contractual enrolment, and one employer already had participation rates of 98% before the reforms.

In total, these employers have automatically enrolled over 120,000 employees on or since their staging date – the date on which they had to implement automatic enrolment - and an average of just 12% have opted out. This is slightly higher than the national figure of 9%, because many of these employers already had high participation rates and operated contractual enrolment. As a result of these reforms, participation rates have increased from an average of 54% to 78%. Of the 22% of employees who are not participating in a scheme, the vast majority are not eligible for automatic enrolment due to their age or income.

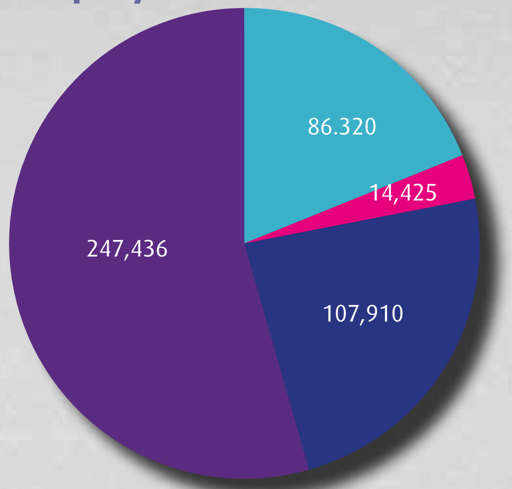
For our members, automatic enrolment was an opportunity to review their pension offering and get more of their employees saving for their retirement. Innovative communications campaigns helped to increase take up, so that even where employers had high participation rates in their pension schemes they still found that few of the new members opted out.

This research suggests that the national picture is a good one. Employers are enthusiastic about automatic enrolment and their employees are pleased to be saving. But the national picture hides a huge range of individual experiences.

We want to understand what factors are most important in making it a success and whether employers would do anything differently if they had a second chance. We also hope that this report will produce some useful guidance for the medium and small-sized employers approaching their staging dates.

The NAPF's members have brought automatic enrolment to fruition. This report shares those experiences and asks what lessons we can learn.

Breakdown of workforce of participating employers



- Already in a scheme
- Joined scheme due to automatic enrolment
- Opted out
- Not eligible for automatic enrolment

10 years in the making

2002
Pensions Commission launched

Pensions Act 2004
The Pensions Regulator created

2006
Pensions Commission recommends automatic enrolment

Pensions Act 2008
Automatic enrolment and NEST established

2010
Coalition Government reviews automatic enrolment

Pensions Act 2011
Amendments to automatic enrolment rules

October 2012
Automatic enrolment introduced

The employer experience

Thinking about automatic enrolment

The employers who participated in this research have collectively automatically enrolled over 120,000 employees between them. They support automatic enrolment and see it as a positive addition to their pension offering.

Every employer will approach automatic enrolment with its own attitudes and objectives. Some will be new to pensions and others will have a long history of operating a pension scheme. NAPF members, by definition, already provide pensions but the type of provision and level of participation will vary.

Our research found that employers increasingly see the importance of offering good quality pensions to their workforce. In many cases enthusiastic support for automatic enrolment came at both board and senior management level.

Historical issues can mean that participation in the pension scheme is mixed for some of our interviewees. For example, the closure of an old scheme resulting in lower than hoped take up of the new one, or where there has traditionally been low take up in sections of the workforce, despite employer efforts. The challenge for one company of communicating with haulage workers illustrated the difficulties of reaching employees who may be based away from head office, have no access to email at work and often rely on their colleagues for information.

NAPF members' automatic enrolment objectives

- Widening access to current pension schemes.
- Reviewing pension provision so that it is suitable for all workers.
- Encouraging workers to contribute more than the minimum.
- Coping with the complicated rules and avoiding reputational risk.

Interviewees saw automatic enrolment as an excellent opportunity to remedy low participation and extend a good pension scheme to a greater proportion of their workforce. In many cases, it was a mechanism to bring pensions to those groups that had always been hard to reach.

Other employers saw automatic enrolment as a chance to review their pension scheme. Where they had concerns around a specific element of their scheme – such as governance – the knowledge that many new people would be joining the scheme gave employers the impetus to address those worries.

While support for automatic enrolment is very high, employers expressed some concerns about it.

A common theme among NAPF members is that they already have good pension provision with high take up. In effect, many of our members already operate automatic enrolment on a contractual basis. There was a risk for these employers that automatic enrolment would require a substantial investment in new systems for very little gain. Many of our interviewees in this position aimed to keep down the costs of compliance, so they could continue to afford high quality pension provision. It is important that employers can use their existing pension scheme for automatic enrolment, and indeed the NAPF has argued that doing so would help to discourage employers from levelling down their contributions. The NAPF's 2012 Annual Survey identified some risk that a minority of employers (20%), who currently contribute more than the 3% minimum contributions to be required by law, may revise these contribution rates[5].

"We think our DC stakeholder plan is a competitive success story for which we already had a 95% take-up, so legislative auto-enrolment has further helped to increase the number of our employees saving for a pension"

Andrew Lynn, Head of Pensions, Thames Water

[5] NAPF, Annual Survey, 2012

What is contractual enrolment?

- **Pre-dates** automatic enrolment legislation and many employers have contractually enrolled for decades.
- **New employees** are enrolled into a pension scheme when they start their job.
- **Employees** have the chance to opt out at this stage.
- **Employers** operating contractual enrolment already had high participation rates.
- **Many** of those being automatically enrolled had already opted out of a pension scheme.
- **Employers** using contractual enrolment will enrol more workers than the minimum under automatic enrolment.

For large employers, or employers in highly regulated industries, the reputational risks were a major factor. Large employers became trailblazers for automatic enrolment, often having to find their own way around problems while parts of the industry lagged behind. For example, sometimes payroll and other service providers did not yet have the products ready for the larger employers. Some of these employers had to invest to develop their own systems. Many of the early automatic enrollers are household names, including high profile supermarkets and financial services companies. They were conscious that their approach to automatic enrolment would be closely scrutinised. It was important that their operation went smoothly.

Too complex

The biggest issue to emerge from our interviews, however, was the complexity of the rules and regulations.

Many NAPF members felt that automatic enrolment made a simple concept – putting workers automatically into a pension scheme – disproportionately complicated and even detrimental to their ability to improve their pension provision or offer a pension that is in the best interests of their employees.

Some felt it was easier simply to do the minimum. A number did not realise they could go beyond the minimum, for example by paying contributions on more than the qualifying band of earnings. Those that knew they could pay contributions on total earnings often felt to do so would be too complicated.

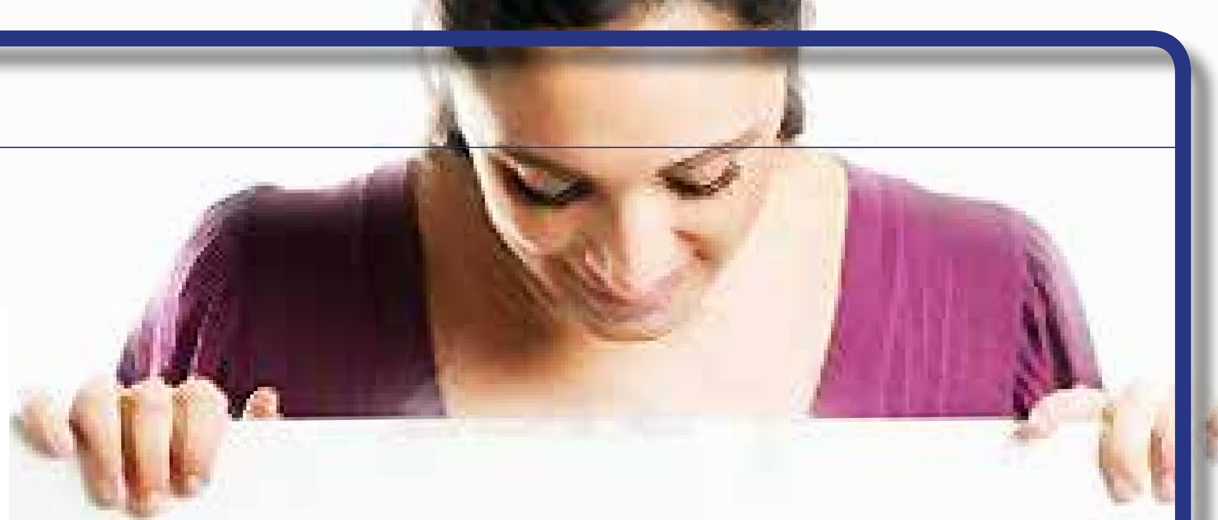
For employers who already offered high quality pensions which reach the vast majority of their workforce, the complexity added by automatic enrolment was considered particularly disproportionate. Interviewees said they felt they had to spend excessive time on just a small number of cases: for example, on a few senior managers with fixed or enhanced tax protection.

Interviewees told us that they had to put new systems and processes in place, with little time for testing. They expressed their fears that a hiccup could have damaged trust in their good pension provision, undermining their objectives and causing people to opt out. To minimise this risk, some employers chose successfully to encourage as many employees as possible to opt into the pension scheme before the staging date. This had the added benefit of many early entrants opting for higher contribution rates and reduced the number of employees that had to be automatically enrolled.

> **"Qualifying earnings has been a pain. One company had 850 pay elements on their payroll system. They had to go through that and work out what elements should go into qualifying earnings."**
>
> Pensions Consultant

It seemed to our interviewees as if the rules had been written as though every employer was going to do as little as possible. The NAPF's experience is that the opposite is true: our research, supported by The Pensions Regulator's survey, found that the vast majority of employers fully back automatic enrolment and many are going beyond the basics[6].

[6] The Pensions Regulator, Employers' awareness, understanding and activity relating to workplace pension reforms, August 2013



MANCHESTER 1824
The University of Manchester

Case study: The University of Manchester

The University of Manchester has four different pension schemes with high levels of participation. Academic and academic-related staff are eligible for the Universities Superannuation Scheme (USS), support staff are eligible for the University of Manchester Superannuation Scheme (UMSS), certain staff are members of the NHS Pension Scheme and some other employees are members of the Local Government Pension Scheme, though this has been closed to new joiners since 2004. All of these are DB schemes.

Before automatic enrolment, all staff could join a pension scheme, with the exception of casual workers, predominantly students. Of those casual workers, most were either too young or did not earn enough to be categorised as eligible jobholders and did not have to be automatically enrolled.

The University of Manchester was clear that automatic enrolment should not reduce the level of provision or alter eligibility for existing staff. It decided not to change its current schemes, but opted to use NEST for automatic enrolment for its casual workers.

The University of Manchester has several good schemes with high take up from staff. It effectively already automatically enrols its workers through contractual enrolment. The result was that it had to go through an onerous and expensive process to enrol existing employees who had previously opted out and bring a small number of casual workers into a pension scheme.

On its staging date, the University enrolled 1,060 staff into USS and UMSS. Six months on from its staging date, there are fewer than 100 workers in NEST as a result of automatic enrolment.

Planning ahead

When the larger employers, including many NAPF members, started to plan – generally 12 to 18 months before their staging date – some of the regulations had not yet been written. Many had to find their own way around problems while parts of the industry lagged behind. Being a trailblazer carries risks.

Some service providers were forced to rush the development of products for employers with early staging dates. In particular, our interviewees found that the preparedness of payroll providers was mixed. Some also had difficulty finding advice when automatic enrolment was in its early stages.[7]

However, there is evidence that payroll and other service providers' awareness and understanding of automatic enrolment is increasing.

Generally employers started to plan well in advance of their staging date – at least a year and in some cases up to three years. But they agreed that the time needed to plan would vary, depending on an employer's objectives. Those using an existing scheme for automatic enrolment, as many NAPF members have done, may need longer because of the time needed to make changes to the scheme, how contributions are paid and the way that employees are enrolled into it, and to their communications with their employees.

By contrast, those who used a new scheme with a large provider found that the planning time could be reduced as it kept complications to a minimum. Many employers appreciated the valuable help offered by providers.

"Because of a period of acquisition we had ten trust-based pension arrangements and five contract-based arrangements. It was inconsistent, so clearly automatic enrolment was going to be a big issue for us if we did nothing about it. We knew we had to think about our entire pension proposition and that work began for us back in 2009."

Pensions Manager, large employer

Every employer we interviewed had convened a project working group, bringing in representatives from different teams across the organisation. Typically these involved people from their pensions, HR, IT, payroll and finance departments to ensure they were all up to speed and build support for automatic enrolment across the organisation.

Getting advice

Most of the employers we interviewed had accessed professional advice, though the scale and purpose of that advice varied considerably.

Larger employers often had access to invaluable expertise within their pensions departments that will clearly not be available to smaller employers, who in addition may be less familiar with complicated pension issues. Access to quality advice will become increasingly important as smaller employers begin to plan.

The way in which advice has been used varies. In a minority of cases the automatic enrolment project was effectively outsourced to a pensions consultant. This requires substantial resources, though there are advantages for employers who want to remain focused on their existing pension provision.

"Mr Webb [Minister for Pensions] lives in another world if he thinks employers do not need advice. If his lawyers had taken a step back and looked at the complexity of the legislation, they would see why employers do need advice."

Representative of a large provider

7. The Pensions Regulator, *Intermediaries' awareness, understanding and activity in relation to workplace pension reforms*, September 2013

At the other end of the spectrum, some employers made very minimal use of advisers. In these cases, advice tended to take on a supervisory or support role; for example, asking advisers to check a project plan to ensure that it complies with the legislative requirements. The employers who participated in our research universally paid for advice themselves rather than through member charges.

Choosing a scheme

Early in the planning process, employers need to decide which scheme they will use for automatic enrolment.

Employers cannot just assume that their scheme will meet the qualifying criteria because the headline contributions are high enough. Employers who opt to use an existing scheme for automatic enrolment may have to make changes to ensure that it complies with the legislation.

Others had set up a scheme recently with automatic enrolment in mind. This meant that it was ready to use on the staging date, allowing the project team to focus on communications and getting the payroll systems right in time.

Increasingly, employers are turning to master trusts – multi-employer trust-based schemes for non-associated employers - for automatic enrolment. There was a strong consensus among our interviewees that master trusts would be a very popular choice for employers of all size, but particularly smaller employers.

//We are seeing a lot more interest in master trusts. Either looking at one of the low cost providers like NOW, People's Pension or NEST, or looking at one of the commercial master trusts. The advantage is getting the trust model of governance, but you don't have to run your own trust.//

Pensions Consultant

Our interviewees tended to appreciate the governance that master trusts provide. Since the governance is at arm's length from the employer, it allows employers to delegate some of the responsibility for running the scheme. Master trusts can also work in conjunction with existing pension provision, and some specialise in complementing employers' existing schemes. Several of our interviewees had opted to use a master trust for automatic enrolment while retaining their other schemes, often with higher contributions, for those who wish to join.

Postponement

The Government's *Making Automatic Enrolment Work* review recommended a number of changes to the automatic enrolment rules[8], including some easements for employers, such as allowing them to postpone by up to three months. Our research suggests that use of postponement has been widespread, though not all employers have postponed for the full three months.

Postponement is a valuable easement for employers. It enables them to align their staging date with payroll periods. It also gives employers a buffer period to check systems before enrolling workers. More broadly, a waiting period can cut down complexity where there is high staff turnover, as it avoids enrolling employees into a scheme only for them to pay one or two months' contributions.

We found that postponement was generally used to reduce administrative complexity rather than to save costs by avoiding a few months' contributions.

Using postponement, however, does not give employers an extra three months before they need to start doing anything for automatic enrolment. Employees have the right to opt into a pension scheme during this period, so employers must at least have a scheme in place. Some employers expressed frustration that this opt in period unnecessarily complicates the process and the message to employees.

"All of my clients are using postponement for some period of time. There are not that many employers doing it purely for cost reasons, but more to ease the administration burden."

Pensions Consultant

Case study: Whitbread Plc

Whitbread is a large company, covering household names such as Costa Coffee and Premier Inn. It was amongst the first employers to start automatic enrolment.

Whitbread has a history of offering good pensions. It has its own trust-based scheme with DB and DC sections.

The company began to plan for automatic enrolment in 2009, well before its staging date in 2012. At that stage the industry had not yet fully developed, and few master trusts were available. Changing the scheme provider could also have added additional complexity to an already complicated process. Therefore, Whitbread decided to use its existing DC trust-based scheme.

Whitbread's existing DC scheme has a number of excellent features, such as a brokerage service for members approaching retirement, so using it for automatic enrolment allowed more employees to access the scheme.

[8] Department for Work and Pensions, Making Automatic Enrolment Work, October 2010

Case study: Thames Water Ltd

Thames Water is a major utility company. The company set up a new DC scheme in 2011, which was designed to be market-competitive and compliant with expected automatic enrolment rules. An adviser was used at this early stage to make sure the new scheme was compliant with legislation.

Thames Water formed a project team about nine months before the staging date. This team consisted of HR, payroll, internal communications and the recruitment team.

The company had operated contractual enrolment and the basic contribution rate was 3% from the employee and a 6% employer contribution. The scheme already had a good participation rate from recent new joiners, so automatic enrolment was focused on the minority who were not already members.

Case study: Bupa

A history of mergers and acquisitions has left Bupa with relatively complex pension arrangements. Before automatic enrolment, it had eight separate defined contribution pension schemes open to different groups of employees. Bupa also operates three separate PAYE accounts.

Participation rates in Bupa varied across different parts of the business, and some parts had historically low interest in pensions.

Bupa opted to use NEST for automatic enrolment as a foundation level for all employees across the business, while retaining five of its defined contribution schemes as 'value added' alternatives that specific cohorts of members can opt into. NEST was an attractive option because it is a reputable scheme with investment design options and communication tools that suited a large cohort of Bupa employees. In addition it has been able to support Bupa through the process.

Bupa was keen to increase participation in its other schemes so launched an information campaign before the staging date. This brought an extra 500 members into the 'value added' schemes.

The communications strategy was timed to begin with the national advertising campaign in October 2012. This first phase, to let employees know automatic enrolment was coming, was followed by three further phases three months before the staging date, on the staging date and then at the point when workers were assessed. The communications strategy emphasised the benefits of saving as well as providing basic information about the schemes available. Bupa used its existing communication channels where possible, including posters, emails, intranet pages and a series of roadshows.

Managing its different payroll systems, as well as a large number of casual workers, was a major challenge. This complexity was minimised by using a waiting period to harmonise the point of joining the scheme with pay periods. But there is still substantial complexity around managing automatic enrolment processes with variable pay reference periods and meeting the automatic enrolment deadlines each month when employees are assessed and paid very late in the month.

"If we'd just sent out the standard communications, I think our employees may have found the process more complicated."

Pensions Consultant

Communicating with employees

Many of our interviewees saw communications with employees as a crucial part of the automatic enrolment project.

Yet as in other areas, the rules on what employers have to tell their employees about automatic enrolment seem to discourage employers from going beyond the basics. Our interviewees were concerned that the prescriptive nature of the regulations on communications meant that employers tended to opt for highly standardised letters provided by The Pensions Regulator, rather than risk non-compliance by missing out a piece of information in an inventive campaign.

The regulator's standard letters were not well received. While they contain the correct information, employers are concerned that the letters are not engaging. Indeed, one employer chose not to use postponement simply to avoid using the Government's postponement notice, which it felt was likely to confuse employees.

Our interviewees knew that to get the best out of automatic enrolment they had to develop and implement an innovative communications strategy. Many have communications departments and carried out extensive research to make sure their communications get the best response.

Employers have found that the advantages of good communications are clear:

- They suggested there is a link between good communications and low opt out rates. Employees knew what was happening and were expecting to see the money taken out of their pay packets.
- Good communications can reduce costs for employers. A major concern of several of our interviewees was that considerable resources would have to be diverted to answer queries about automatic enrolment. Clear communications are an effective way of addressing those questions early and reducing the number of people needed on a helpline.

Our survey and interviews underlined the importance of tailoring communications to the audience. The survey asked scheme members whether they thought it made more sense to communicate online. Of the respondents aged under 24, 78% agreed, compared with only 38% of those aged 55 to 64. An effective communication strategy should cater for its target audience.

Several interviewees mentioned that messages in payslips were an effective means of communication as employees do look at them. They said that just a short note, with where to go for further information, can get the message across clearly. They did point out, though, that of course the payslip is how many employees will first notice that their contributions have been deducted.

Many employers were keen to engage individually with employees who decided to opt out. Some required those employees to discuss the decision with the pensions manager, as this gave the employer a chance to discuss the benefits of joining a scheme and tackle any misconceptions. The result was that many employees chose to stay in the scheme.

"Our research touched on why people opted out and three main factors came through. One was people felt they simply could not afford it. The second was people felt they had already made pension provision somewhere else. The third was people who felt they were just too old."

Pensions Manager, large employer

Employees' experiences

Automatic enrolment aims to get up to nine million people saving, or saving more, into a workplace pension. So the employee perspective on these reforms is as important as any. The NAPF commissioned a member survey, interviews and a focus group, as well as results from its biannual Workplace Pension Survey, to bring members' views and their voices into the debate.

Employees' views of pensions

According to the latest NAPF Workplace Pension Survey, around 46% of the private sector workforce is currently saving into a pension with their employer.[9] Of those not saving, one in five chose not to save and one in four were not currently offered a pension by their employer.

For those who are not saving for retirement, the barriers are wide and varied. During the current difficult economic times it comes as no surprise that affordability remains a key barrier to saving more. We found that 42% of individuals who are not currently saving said that they cannot afford to save into a pension; 55% of all respondents would save more if they were paid more.

Despite the barriers and current low levels of saving, our employee interviews demonstrated that the concept of a pension is viewed very positively by employees. Saving for retirement is seen as a common sense, good thing to do. Most want to save if they can do so affordably.

While pensions in the abstract are well regarded, engagement and levels of understanding are low. Our interviews showed that very few employees have a clear expectation of their pension beyond the fact it will give them an income of some level at retirement. Employees know little about their pensions beyond the amount of money that is taken from their wages. This is understood in monetary rather than percentage terms, for example, "It's £3 or £4 per week". Nobody we interviewed had taken any steps to investigate their pension further, by checking the size of their pension pot or charges, for example.

It is clear that employees are not engaged with their pension. Indeed, in our member survey a majority of respondents said that they had no idea what happened to their savings after they were paid into the scheme.

//When you think of the long-term, it's good, saving, extra saving//

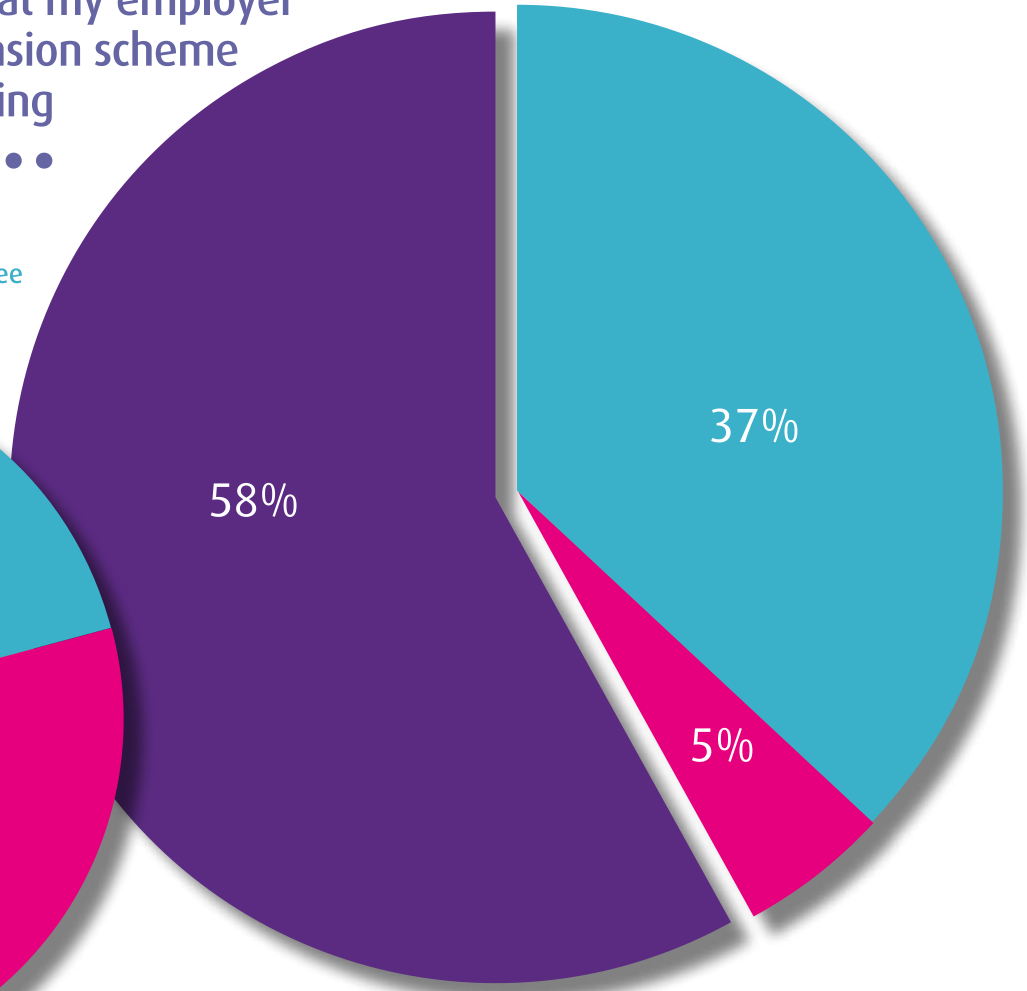
New scheme member

[9] NAPF, *Workplace Pensions Survey*, October 2013

While it is clear people value the concept of pension saving, they do not understand their pension and want someone else to do it for them. Our research found that employees trust their employer to pick a good pension scheme and manage it for them. As the chart below shows, 57% of employees were confident that their employer would choose a good pension scheme that is worth joining, while only 5% disagreed.

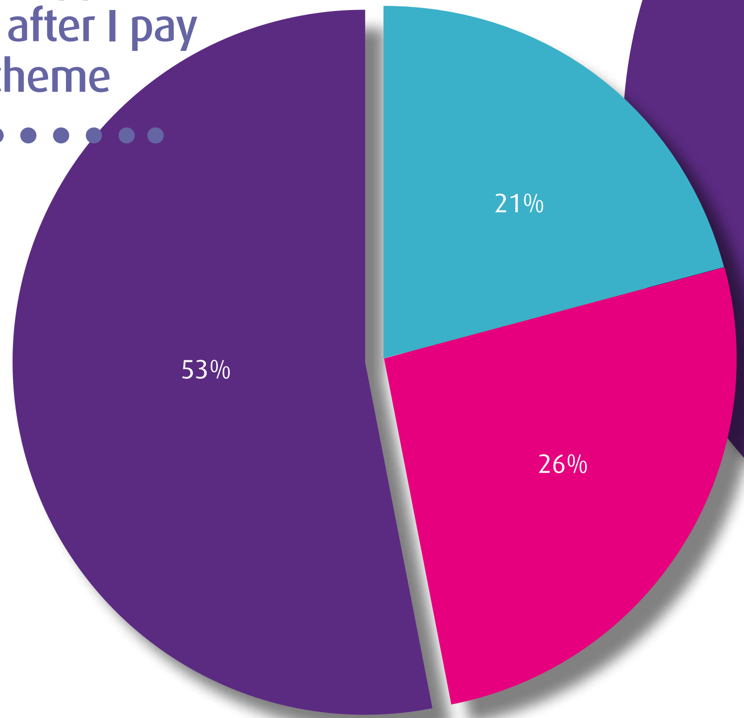
I am confident that my employer chose a good pension scheme that is worth joining

- Agree
- Disagree
- Neither agree nor disagree



I have no idea what happens to my pension savings after I pay them into the my scheme

- Agree
- Disagree
- Neither agree nor disagree



Employees' views of automatic enrolment

Many workers want to save, but do not know where to start. They need to be nudged into saving and want someone else to do it for them. The automatic enrolment reforms, meaning that people are saving unless they opt out, are designed to harness this inertia and kick start the savings habit.

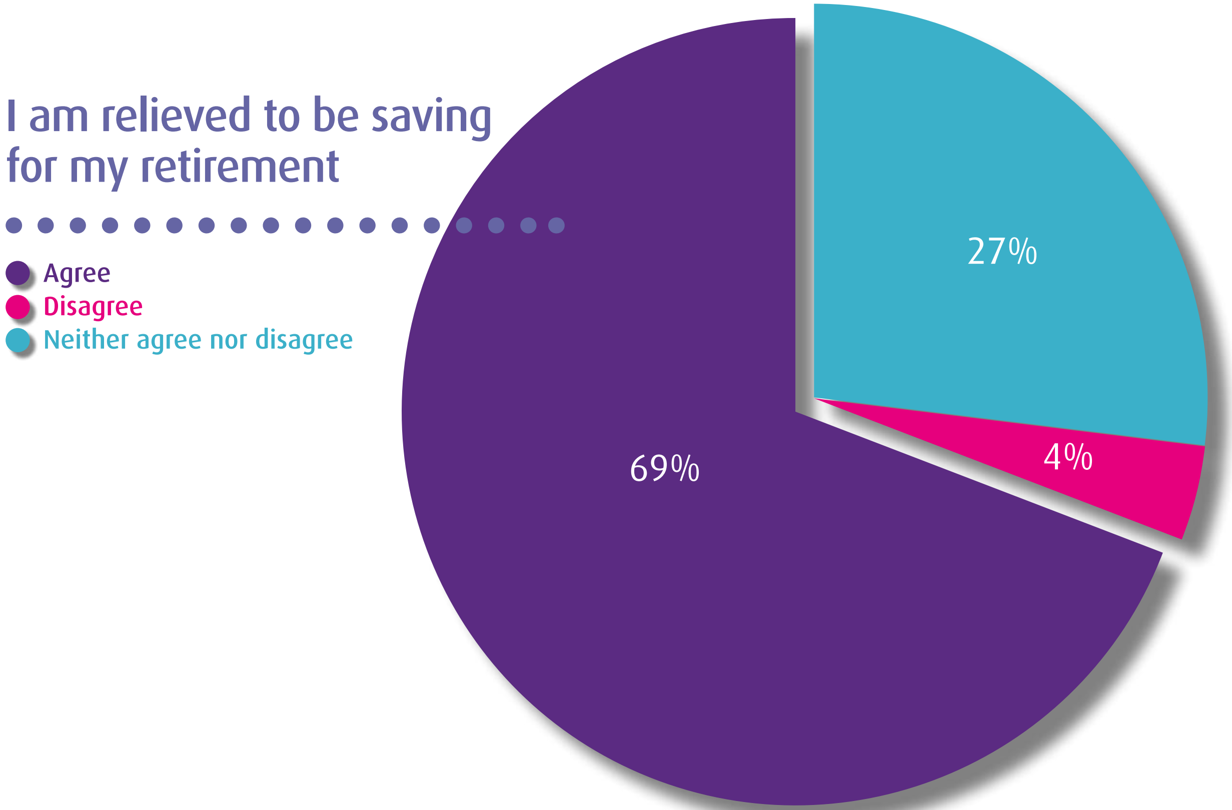
Of the scheme members that we surveyed, a majority (56%) agreed that they only joined their employer scheme because of automatic enrolment. And 71% of respondents from our Workplace Pension Survey agreed that automatic enrolment is a good idea, while 21% were neutral. It is clear that automatic enrolment is both popular and well suited to the way people think about pensions.

Our member survey asked employees whether it was a relief to finally be saving for a pension – 69% said yes. And our focus group revealed universal support for automatic enrolment as a positive step towards saving for retirement.

"It [automatic enrolment] was successful in Whitbread because of the foundation. Because we trust the company."

Employee, Whitbread

I am relieved to be saving for my retirement



Awareness of automatic enrolment among the population is encouraging. In our Workplace Pensions Survey 78% of respondents were aware that they would be automatically enrolled into a pension, with the majority (56%) having heard about the reforms from the Government's "I'm in" advertising campaign. An impressive 99% of respondents to our scheme member survey were aware that they had been automatically enrolled.

"A pension is very good for all the staff."

Employee

So far, automatic enrolment is generally viewed positively by scheme members. People are relieved to be saving and they are relying on their employer to do the right thing by them. It will be interesting to see how these views evolve as automatic enrolment is rolled out more widely and contributions start increasing. Although awareness of automatic enrolment is high, our research suggests that employees are not engaging with their pension or the detail of being automatically enrolled.

> **"To be honest with you, I haven't read the letter"**
>
> New scheme member

However, there is concern for some about the inflexibility in the automatic enrolment rules, which means that employers have to enrol some individuals even when it is not in those people's interest – for example, students who may only be working for a short period or who are visiting the UK for a study period.

This was borne out in our focus group research. None of the employees interviewed had opted out and only one planned to do so, simply because he was only working temporarily in this country while studying and will soon return to his home country.

> **"My ambition is different... after I finish my course, I go back to my country. This [is the] reason I don't need the pension."**
>
> Employee

We found evidence that casual workers, who may not be planning to stay with their employer in the long-term, had been automatically enrolled. Often pension saving did not seem relevant for them at this stage. In such cases, it is clear that the rigid rules that employers have found difficult to operate are having a real effect on their staff.

Staying in versus opting out

The national picture on opt out rates is very encouraging and has undoubtedly exceeded expectations. Research by the Department for Work and Pensions suggest opt out rates are running at 9%.[10] This is consistent with NAPF evidence that shows opt out rates running at 12%. This is higher because the NAPF members surveyed generally already operate schemes with high take up rates and often operate contractual enrolment.

So the policy intent of harnessing individuals' inertia has so far been a success. Indeed, for a policy based on defaulting people into pension saving, there is a surprising level of awareness and support for the reforms among employees, particularly at a time when people are being asked to pay more as household finances are being squeezed.

> "I didn't go to the website, because they sent us some links on some email but I didn't have time yet to look at it. I think if I go to the website to read the page I'll get to know everything but I'm not sure yet how it works really."
>
> New scheme member

Low opt out rates have been helped by the phasing of contributions. If employers are automatically enrolling at the statutory minimum, the impact on the employee's pay packet will be less than one per cent in the early years. Eventually contributions will increase and this could have an impact on participation.

Why have opt out rates been so low?

- Engaging and clear communications
- Positive media stories about pensions.
- Phasing contributions.
- Inertia.

Although employers give much credit to their communication strategies, our focus groups suggests that many people did not recall receiving any communication. Those that did remember sometimes either did not recall the communication accurately or did not read them.

This again highlights that employees, even when given the opportunity, did not want to engage with the process. Some actually felt 'guilty' that they do not know more about automatic enrolment or their pension but admit they have not taken steps to find out more.

In this environment, employees echoed what employers told us: that the payslip is a vital form of communication, more powerful than letters, websites or emails.

> "I found out when I checked my payslip."
>
> New scheme member

Employees welcome automatic enrolment. Often they had wanted to save for retirement for some time, and this was the nudge they needed to get them saving. But these new scheme members generally do not understand their pension scheme. They rely on somebody, typically their employer, to manage their savings for them.

[10] Department for Work and Pensions, Automatic enrolment opt out rates, August 2013

We're in: now what?

A short discussion with an HR or pensions manager will make clear how frustrating the implementation of automatic enrolment can be. It is hard to overestimate just how difficult and complicated it has been for most employers.

But looking back on the months leading up to, and following, their staging date, most of our employer interviewees felt a sense of pride that they managed to automatically enrol their workers successfully. They have played an important part in successfully delivering what is the biggest change to pensions in a generation.

Employers and employees have seen low opt out rates. Perhaps more significantly, participation rates have shot up dramatically. NAPF members are now generally reporting participation rates of 95% or higher in their pension schemes.

Many of our interviewees were especially proud of the way that they had used communications campaigns to increase interest in their pension offering. Many more people are now saving into a pension scheme, and many of those are contributing more than the minimum.

Several employers ran campaigns to increase take-up ahead of their staging date. In some cases, these brought hundreds of people into excellent pension schemes with generous employer contributions.

There was also a lot of professional pride that a new legal obligation for the company had been successfully met. Planning required the coordination of several different teams, including contractors and service providers, and cooperation across the organisation. The pride was often tempered with a sense of relief that there had been no significant mistakes, or that any mistakes had been addressed appropriately.

> **"While I am really proud of our auto-enrolment programme, the bit that that I'm actually most proud of is not auto-enrolment related at all, it was the fact that we got 400 people to sign up for pension provision early."**
>
> Paula Evans, Head of Pensions and Benefits, Fujitsu Services

What would our interviewees have done differently?

- Started planning earlier.
- Engaged with service providers earlier.
- Had more communications covering a greater number of employees.
- Started the communications campaign earlier.
- Considered a different pension scheme, such as a master trust.

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Looking forward

Now that they have passed their staging dates, our members have a chance to look at some of the other aspects of their scheme which, perhaps, they did not have time to do while planning for automatic enrolment.

While for some employers, automatic enrolment will continue to be a monthly or weekly task, most had largely automated their systems to reduce the workload. For some of our interviewees, automatic enrolment will continue to require manual tasks, such as monitoring employees who opt out to check if they need to be re-enrolled.

Many of our interviewees were planning to look at scheme governance in the near future. Others wanted to review their scheme's default investment options, now that the scheme's membership had changed with many new members. For others, introducing brokerage or advice services for members reaching retirement was the next item on the agenda.

Many employers have complex pension arrangements. A series of mergers and acquisitions have left some companies with lots of pension schemes and employees with eligibility for different types of scheme. For example, one employer that we interviewed had 13 separate pension schemes. For many employers, automatic enrolment is the first step towards rationalising these schemes into a simpler and easier to manage structure.

For others, the next challenge was the latest legislative change. Employers with defined benefit schemes were concerned about the abolition of contracting out. Others were conscious of the work that The Pensions Regulator and the DWP have been doing on standards in defined contribution pensions. The recent report by the Office of Fair Trading also highlights the challenges ahead to ensure high quality across the industry. While recognising the need for high standards, they were concerned that this was another onerous task handed down to them. Others were starting to think about the phasing up of contributions and the effect that this might have on low earners less able to afford higher contributions.

Smaller and medium-sized employers

Inevitably, the minds of the pensions industry and policymakers will turn towards the medium and smaller employers approaching their automatic enrolment staging date.

It is clear that a capacity issue could be developing in the market place. Many thousands of additional employers will be reaching their staging date next year, and there are particularly busy periods between April and July 2014.

As we have learned, advice in some capacity is commonplace. Pension consultants will need to be ready for the additional demand for advice. There is a risk, however, that if supply cannot keep pace with the demand, the quality of advice could fall. There is also, therefore, an onus on providers to support employers as far as possible.

> "Capacity in the market will be a real problem. Capacity both with advice, but also with the pension vehicles themselves."

Phil Duly, Employee Benefits Consultant, Barnett Waddingham

Generally, our interviewees were impressed with the providers they had used. Many had provided standard communications which offered a better alternative to The Pensions Regulator's standard letters.

Smaller employers may not be as commercially attractive to some providers, so they may be more inclined to pick and choose their clients as automatic enrolment reaches its later stages. We found mixed evidence on whether providers had become more discerning over the last year. Most providers and consultants felt that providers had not yet reached capacity. Some of the employers that we interviewed, however, had already been turned down by commercial providers and had turned to not-for-profit alternatives.

A risk remains that employers could reduce contributions to make the process more affordable. Making automatic enrolment as simple as possible will help to address these concerns around levelling down.

Much has been said about the challenges that medium-sized and smaller employers will face. It is true that they may be greater competition for advisers and providers, but smaller employers also have some advantages over the larger employers.

Significantly, the industry is now better prepared for automatic enrolment. Service providers have been developing their products on the basis of larger employers' experiences and smaller employers will benefit from that. Automatic enrolment systems and processes have been tested by the larger employers and can now be used by others.

Implementing automatic enrolment might even be a bit simpler for employers with no existing pension schemes. There are now several pension providers, such as master trusts, with high quality offerings designed for automatic enrolment.

For many smaller and medium-sized employers, joining a master trust will be the best option for automatic enrolment. Master trusts allow employers to delegate some of their responsibility for managing the scheme. Employers who are very engaged with pensions may still want to establish their own scheme but, if they choose to do so, they should also take on some of the responsibility for its management.

Top tips for employe

- **Start planning early.** Most of our interviewees wished they had spent more time planning, testing and communicating with their employees. Set up a project team with support from across the organisation.
- **Know your staging date.** This is worked out from the size of your PAYE scheme in April 2012.
- **Look at your data.** Automatic enrolment is largely about data

ers approaching automatic enrolment

processing so the higher the quality of your data the better.

- **Contact your payroll provider.** Different providers will be able to offer different levels of support so make sure you know what yours can do for you.
- **Choose the right pension provider.** A large provider with lots of experience of similar employers to yourself may be able to help you a lot.
- **Think about cost.** Lots of employers have found it is more expensive than expected, so build automatic enrolment into your financial plans.
- **Document every decision.** Sometimes the regulations are unclear so record how and why you make each of your choices. This will help to prove in the future that you tried to follow the rules.

The employee reaction

Employees are relieved to be saving for their retirement, and automatic enrolment may also have increased awareness and interest in pensions. The NAPF's most recent Workplace Pensions Survey found that 59% of respondents who have been automatically enrolled are now more aware of their pension arrangements than they were in the past. Similarly, 57% of respondents now say that they have started to pay more attention to pensions news stories.[11]

Nonetheless, despite support for the policy, most members simply do not understand how their pension scheme works. It is clear that members rely on some governance in the scheme to monitor their savings.

Looking ahead, many employees were conscious that they may need to save more in the future. Interestingly, they were aware that current contribution rates are inadequate and that it may be necessary to contribute more in the future. Indeed, our most recent Workplace Pensions Survey found that 60% of those surveyed (and 84% of 18-24 year olds) were likely to save more into their pension scheme in the future.[12]

> **"1% is good for starters but it should be more like 5%"**
>
> Employee, Whitbread

[11] NAPF, Workplace Pensions Survey, October 2013
[12] NAPF, Workplace Pensions Survey, October 2013

Making automatic enrolment easier

Looking beyond the introduction of automatic enrolment, it is clear that the regulations could be radically simplified. A major change to the automatic enrolment rules while employers are still staging would not be helpful. But after automatic enrolment has been introduced, the Government should consider whether it can replace the current regulations with principles-based rules.

These principles-based rules would require employers to automatically enrol employees into a pension scheme with minimum contributions, but much of the detail of worker categories, pay reference periods and other technical details could be removed. Ultimately employers only need two categories of workers: people who need to be automatically enrolled and people who do not.

This simplification would recognise that the vast majority of employers support the Government's objectives and still give them greater flexibility to do what is appropriate for their employees.

Automatic enrolment also raises searching questions about what makes a good pension scheme. When millions of people are being nudged into pensions, we need to know that those schemes can deliver good outcomes for members. The Government has already begun to think about standards in DC pensions, and in July 2013 issued a call for evidence on the subject.[13]

This approach was also supported by the Office for Fair Trading in its recent market study.[14]

Many of our interviewees felt this work should have come before automatic enrolment, rather than after it. But is it is welcome even if it is late.

The NAPF launched its Pension Quality Mark in 2009 for precisely this purpose: to recognise good DC pension schemes. This independent standard has been a success. There are now over 184 Pension Quality Mark schemes, covering over 300,000 active scheme members.

It is important that pension schemes are well governed, that investments are monitored and that administration is sound. Ultimately defined contribution pensions delivered at scale are better placed to get good member outcomes, so we need to move towards having fewer, larger, well-governed pension schemes. There are currently few barriers to establishing new trust-based schemes. To move to a scale pensions market, we need higher barriers to entry for new schemes being established.

How can the Government support automatic enrolment?

- **Press on with technical easements.** The Government's proposals to exclude certain groups of workers for whom saving is not beneficial, ease the rules around pay reference periods and introduce easements for employers who use contractual enrolment are popular. These easements will help employers to implement automatic enrolment.
- **Simplify the process.** It is sensible to adopt a simpler, principles-based approach to automatic enrolment once it is fully introduced.
- **Set minimum standards.** Schemes used for automatic enrolment should have to meet certain quality criteria, and minimum standards will help to act as barriers to entering the pensions market.

[13] Department for Work and Pensions, Quality standards in workplace defined contribution pension schemes, July 2013
[14] Office of Fair Trading, Defined contribution workplace pension market study, September 2013

Case study: The University of Nottingham

Like other universities, the University of Nottingham has several pension schemes for different types of workers. It has 12,000 people on its payroll, but as take up of pension schemes is very good and many are intermittent casual workers, only around 1,300 were eligible for automatic enrolment.

Asked to give one piece of advice to employers approaching automatic enrolment, our interviewee said that they should start preparing early and consider carefully the communications to staff.

The University of Nottingham is now supporting its connected companies, such as the Students' Union, with automatic enrolment. It has advised that they put automatic enrolment into their five year business plan and begin to think about the costs of implementation.

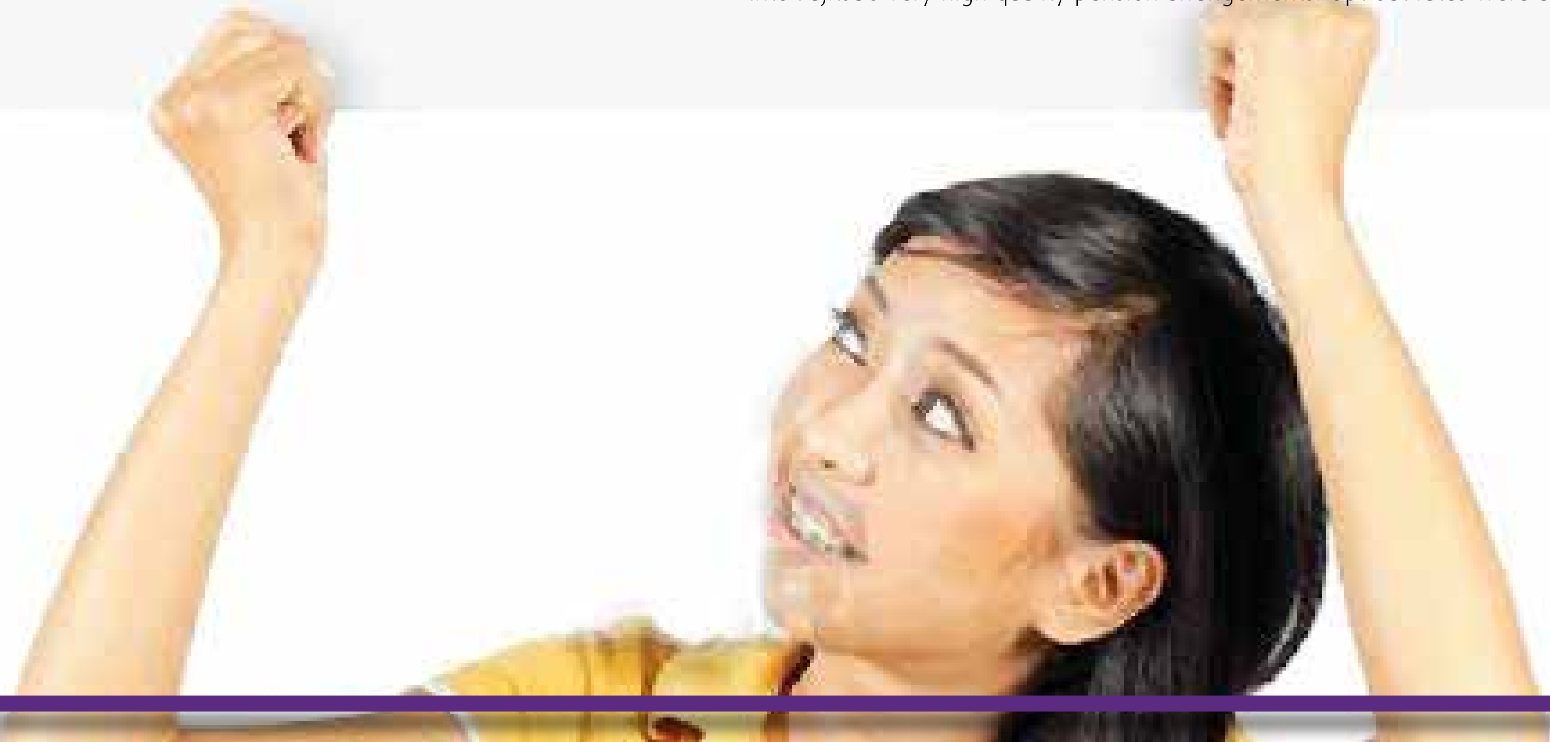
Case study: Fujitsu Services

Fujitsu is a large employer, with around 10,000 employees in the UK and Ireland. It has a diverse workforce and a large range of pension arrangements as a large proportion of employees joined through TUPE transfers.

Assessing the workforce was quite complex due to the variety of pension arrangements. Around 90% of employees were already members of a pension scheme so the number to be automatically enrolled was relatively low.

Before automatic enrolment, Fujitsu ran a communications campaign to increase uptake of the pension scheme. This was very successful and around 400 people joined the pension scheme early. Looking back, it was this aspect that Fujitsu picked out as the most successful element.uhi5e

The well managed communications campaign saw around 1,000 new members brought into Fujitsu's very high quality pension arrangements. Opt out rates were around 10%.



Conclusions

For many of the employers, providers and advisers we interviewed, automatic enrolment is not just a legislative requirement. It is an important step towards bringing more employees into high quality pensions and an impetus for reviewing and improving pension arrangements. Our interviewees were enthusiastic about its objectives.

The results have been positive. Members are relieved to be saving for their retirement and are conscious that they probably need to save more. While understanding and engagement with pensions remains low, the success of automatic enrolment is that it has harnessed inertia to get people saving for their retirement.

But employers' enthusiasm is tempered by frustration at the complexity of the automatic enrolment rules. It does not need to be so difficult. Employers want to do the right thing but often find that the regulations make it hard for them to go beyond the minimum. This is why the Government's proposed technical easements are welcome. The Government should go further, when automatic enrolment has been fully implemented, by simplifying the rules with a principles-based approach.

The employers who have already automatically enrolled generally found that it was more complicated and more time consuming than they had expected. The message for smaller employers coming up to automatic enrolment must be that they should start planning early. Many of our interviewees wished they had had more time to test systems, communicate with employees and negotiate with service providers. Creating a project team and contacting service providers are easy early steps that can pay dividends in the future.

Automatic enrolment is just the first step towards addressing the UK's savings crisis. When half of employees are not members of a workplace pension scheme, this radical step will help to build a culture of saving. Now we need to make sure that those schemes into which millions of people are being automatically enrolled are capable of delivering good member outcomes. The Government's work on quality standards in DC pensions is an essential part of that process.

The NAPF believes that large schemes with good governance are best placed to deliver those outcomes. The Government should proceed with measures to develop a pension market with fewer, larger, well-governed pension schemes.

movingforward

Annex 1 - List of participants

Phil Duly	Barnet Waddingham
Katie Duxbury	Bupa
Patrick Gallagher	Coop Group
Paula Evans	Fujitsu Services
Julie Hooker	Jaguar Land Rover
Martin Freeman	JLT Group
Dinesh Visavadia	John Lewis Partnership
Daniel Jacobson	Kingfisher
Paul McBride	Legal and General
Emma Douglas	Mercer
Roy Porter	NEST Corporation
Jamie Fiveash & Paul Murphy	The People's Pension
Wendy Tavendale	Royal Bank of Scotland Group
David Carr & Sue Smith	Severn Trent
Jamie Jenkins	Standard Life
Andrew Lynn	Thames Water Ltd
Steven Robson	United Utilities
Heather Mawson	University of Manchester
Martin Wynne-Jones	University of Nottingham
Andrew Wood	University of Sheffield
Lesley Williams	Whitbread

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