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Time for a reality check?

2014 ACA Smaller Firms' Pensions Survey Preliminary Report

Survey conducted by the Association of Consulting Actuaries

PUBLISHED – 23 October 2014

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Chairman's Introduction: 2014 ACA Smaller Firms Pensions Survey



We conduct this survey of pension trends in businesses employing 249 or fewer people every second year and this year its theme is *'Time for a reality check?'*. It follows on from our 2012 survey of the sector *'A million challenges ahead'*. The title reflects the fact that despite the excellent progress made to date in auto-enrolling employees from some 30,000 employers, this is just 0.25% of the total number of employers that still have to auto-enrol their employees.

To date, the policy has been implemented amongst larger employers where there have been, in many cases, identifiable financial and HR resources supporting introduction. The stark fact remains that over the next 3 years or so, over 1 million smaller employers still have to meet the auto-enrolment challenge – a million employers, three-quarters of which have 4 or fewer employees. Yes, it is right that pensions should be taken up by employees in even the smallest firms. But the Government and the Pensions Regulator need to be alive to the possibility that they might need to spread the burden over a longer period. We believe the next Government needs to take a look again in mid-2015 (as the present Government did in 2010) to assess whether there should be some policy adjustments in particular for the $\frac{3}{4}$ million micro-employers with 4 or fewer employees.

Our survey suggests that many small employers still remain blissfully unaware of the auto-enrolment timetable and – more alarming still – the budgetary planning needed to identify the extra costs that most will face. The Government and the Regulator have done a great deal to raise awareness about auto-enrolment and its virtues. They need to re-double their efforts in communicating the pension message – there must not be any complacency because of the success to date in terms of low opt-out rates in larger employers, particularly if the review of policy we commend is rejected.

There are two principal reasons why we believe a policy review is needed in 2015.

First, the increase in the income level below which employees are excluded from auto-enrolment has been very marked during the current Parliament because of the significant increase in the personal tax allowance. This has meant a high number of employees in large and mid-sized firms have been excluded from auto-enrolment (in fact as at 31 August 2014 those ineligible for enrolment broadly equates to the numbers that have been added via auto-enrolment to pre-existing pension scheme numbers). We question therefore whether, going forward, the personal tax allowance should continue to be the level below which employees are excluded from auto-enrolment. This is compounded by the evidence that employee earnings are on average markedly lower in smaller firms (see pages 7-8 of this report). Without some policy change there is likely to be an increasing percentage of employees excluded from pensions – probably rising well above a third. Indeed, when it comes to the policy applying to micro-employers (4 or fewer employees) we could reach the point where $\frac{3}{4}$ million firms are being chased to register a scheme and meet compliance rules to deliver maybe just $\frac{3}{4}$ million employees actually eligible and willing to be auto-enrolled.

Second, the generally much lower average earnings in these firms and the fact that in October 2017 combined contributions from employers and employees climb from 2% of band earnings to 5% and then 8% a year later with, in all likelihood, only modest increases in average earnings over the intervening period, suggests an incoming Government and perhaps the parties ahead of May 2015 may need to consider whether they must budget for some national insurance concessions to offset these sharp increases in costs. Again, if there is no review of policy there must be some danger of high opt-outs amongst micro-employers (and perhaps in larger employers as they begin their second wave of re-enrolment).

Whilst, in the longer-term the ACA is of the view that average pension and savings rates must increase so more people enjoy a comfortable income in part or full retirement – and hence we support such initiatives as auto-escalation and extension of contributions to all earnings up to a ceiling – in the near-term Government may need to be pragmatic and consider financial incentives to deliver the desired policy outcome.

Finally, I would like to thank all those firms that responded to the survey questionnaire.

David Fairs
Chairman

Key findings

This biennial survey was conducted by the Association of Consulting Actuaries (ACA) in July/August 2014 for online completion by 15 August 2014 and was broadcast to 18,000 of the UK's smaller firms with fewer than 250 employees, selected on a random basis. Responses were received from 414 firms. This survey report is part one of the ACA's *2014 Smaller Firms' Pensions Survey* and focuses on both trends in provision and replies to questions posed about pension reforms including experience of and preparations for auto-enrolment.

The final survey report to be published later this year will cover a wider range of issues and include a full statistical appendix.

All employers responding to survey

- Whilst today around a half of their employees retire at age 65 and just 8% at age 66 or above, in just six years (when SPA increases to age 66) the expectation is that three-quarters of their employees will retire at ages 66-67.
- Close to six out of ten of these smaller employers are supportive of the new 'freedom and choice' reforms, with just one in ten opposed.
- Where employers have taken a view, 'face-to-face' meetings are seen as likely to be the most popular channel for the 'guidance guarantee', followed by web-based tools and then telephone guidance.
- 56% of employers support further changes whereby current levels of pension tax relief are more targeted on those with lower incomes, with over a third also saying that reliefs should be further restricted for those on higher incomes.

Employers that have already auto-enrolled employees into a workplace pension (43% of respondents)

- Whilst 56% of the employers with pre-existing schemes have kept those arrangements for existing employees, generally non-joiners and new entrants have been enrolled into multi-employer arrangements, including NEST.
- Some 15% of employers have closed their pre-existing pension arrangements, with over eight out of ten of these opting to enrol all their employees into a multi-employer arrangement, including NEST.
- The biggest problem experienced by employers in preparing for auto-enrolment was the 'processes in preparing for change' followed by 'regulatory complexity' and 'assessment of the options available'.
- The median opt-out level of employees from auto-enrolment reported to the survey falls in the 11-15% band.

Employers that have already auto-enrolled employees into a workplace pension (43% of respondents) continued...

- The prime reason given by employers as to why employees opt-out was 'prefer to spend income', with this running ahead of 'cost-cannot afford'. Disappointingly, 'disillusionment with pensions' was seen as the third most important reason.

Employers who have not yet reached the date when they must auto-enrol (57% of respondents, including 4% 'don't knows')

- Whilst there is some evidence of multi-employer arrangements being established ahead of staging dates, the majority of employers presently provide no pension arrangements at all. Where schemes are present, contract DC arrangements outnumber trust-based DC arrangements.
- Awareness of staging dates (46% of firms are aware) and budgeting for auto-enrolment (29% are doing so) is still quite low.
- Where small and micro employers have made decisions (most have not) by far the majority have decided to enrol all eligible jobholders into NEST or another multi-employer scheme. Amongst those employing 10-49 employees, 57% are proposing this route; amongst those with 1-9 employees, the figure reaches 70%.
- Whilst 'small' employers (10-49 employees) are estimating low employee opt-out rates of up to 10%, 'small' employer (5-9 employees) and 'micro' employers (1-4 employees) are expecting higher opt-out rates in the 16-20% band.
- Upwards of nine out of ten of these employers feel that a delay or pause in staging should be considered until the raft of pension reforms that are unresolved is finalised.

Facts and figures: smaller firms' place in the UK economy

The small and medium-sized (SME) firms sector, here defined as businesses employing 249 or fewer employees, is the largest part of the UK private sector economy in terms of employment. These smaller firms employ over half of the UK's private sector employees – 14.4 million (59.3%) and generate just short of a half (48.1%) of all private sector turnover, amounting to some £1,600 billion per year. They make up over 99.9% of all UK private sector enterprises.

The major test for those responsible for monitoring compliance with the auto-enrolment regime will be to capture data on these 1.2 million firms (the vast majority with fewer than 5 employees), whilst also being able to cope with the dynamic changes in business numbers each year. For those bodies 'providing' qualifying schemes there are other challenges including monitoring employee earnings, movements of employees from firm to firm, changes in opt out decisions, re-enrolment every 3 years, payments of contributions and plenty more. This will be an extremely challenging task for many small employers, the regulator, pension providers and advisers with an exacting auto-enrolment staging timetable for smaller firms commencing in 2014.

Figure 1: UK private sector: number of enterprises and employment by size of firms

UK Smaller private sector firms	Number of enterprises	Employees (thousands)	Average number of employees per enterprise
No employees (see note below)	3,684,745	600 ¹	-
1 employee only	162,465	162 ¹	1
2-4 employees	594,655	1,558 ¹	3
5-49 employees	416,510	5,081 ¹	12
50-249 employees	30,685	2,984 ¹	97
Total: smaller firms (1-249 employees)	1,204,315	9,785¹	8

(Source: Dept of Business Innovation and Skills, Business Population Estimates, 2013 figures, published 23 October 2013)

Note: 'No employees' comprises sole proprietorships and partnerships comprising only the self-employed owner-manager and companies comprising only an employee director

¹ Excluding working proprietors not working under a contract of employment in return for a wage or salary.

Average employee earnings: the small firm dilemma

The present Government has proudly trumpeted its achievement in raising the personal tax allowance from £6,475pa in 2010/11 to £10,000pa in 2014/15. Already the Conservatives and Liberal Democrats have seemingly targeted £12,500pa within the next 5 years. To date, in the annual reviews of the auto-enrolment earnings trigger (the level below which employees are not auto-enrolled), the Secretary of State for Work & Pensions has kept this in line with the personal tax allowance, although considerations ahead of the announcement can and do look at other figures. The review for 2015/2016 has just been published with a range of options other than the personal tax allowance open to consultation until 25 November 2014².

Raising the trigger from £9,440pa to £10,000pa this year excluded around 170,000 individuals from auto-enrolment and the larger jump in 2013/14 from £8,105pa to £9,440pa excluded around 420,000³. In both cases by far the majority affected were women⁴.

Aside from the gender issue, these leaps in the trigger present two problems.

First, the increases might be coped with if average earnings were advancing at pre-2008 levels, but they are not. Indeed, there is evidence of very little earnings growth over the last few years, with falls in earnings in some lower skilled occupations.

Second, and of particular relevance to those working for small employers, there is evidence that average earnings levels are markedly lower in the micro employer sector. Whilst ONS does not regularly report on employee earnings by size of firm, the review of auto-enrolment in 2010 did look at and report on earnings disparities (*see Figure 2*). With the low growth in earnings since these figures were published, there must be a concern that as auto-enrolment reaches down to these employers, auto-enrolment eligibility rates will fall quite markedly and logically opt-out rates might also rise too.

It seems likely that already as many as 40% of employees of micro employers may be ineligible for auto-enrolment without any increase in the trigger from £10,000pa. In stark terms, this could mean that requiring $\frac{3}{4}$ million micro employers to auto-enrol eligible employees may only add to employees covered by pensions by around just $\frac{3}{4}$ million, given a quite modest opt-out rate.

It may be that earnings growth in the period from now to 2017 will be such that it will in part address these concerns, but – as things stand – the case for a review of the auto-enrolment earnings trigger and the forward application of auto-enrolment to micro employers would seem appropriate – we suggest this merits an independent review by the Government following the May 2015 General Election, allowing time for policy adjustments.

² See *Automatic enrolment earnings thresholds review and revision 2015/2016* published by DWP (October 2014)

³ See *Review of the automatic enrolment earnings trigger and qualifying earnings band for 2014/15: supporting analysis* published by DWP (December 2013)

⁴ *Ibid*, 69% in 2014/15 and 72% in 2013/14

Figure 2: Average earnings in small and micro employers

	Employer size: number of employees					
	1	2-4	5-9	10-19	20+	All
Percentage of all employers	16%	50%	18%	9%	6%	100%
Percentage of all employees	2%	10%	8%	8%	72%	100%
Earnings of workers employed by firms within each size category: column percentage						
£5,000	13%	13%	11%	9%	8%	8%
£5,000 - £9,999	28%	25%	17%	13%	11%	12%
£10,000 - £14,999	21%	19%	18%	17%	13%	14%
£15,000 - £19,999	15%	15%	17%	17%	15%	16%
£20,000+	24%	29%	37%	44%	53%	51%
Annual work force churn	17%				12%	14%
Proportion of employers offering pension provision with a contribution percentage	8%	3%	20%	24%	44%	12%

(Source: *Making automatic enrolment work – a review for the DWP*. Cm 7954. Published 27 October 2010. Extract from Table 3.1, page 50)

The generally much lower average earnings in these firms and the fact that in October 2017 contributions climb from 2% of band earnings to 5% and then 8% a year later (of which 4% is from employees) with, in all likelihood, only modest increases in average earnings over the intervening period, suggests an incoming Government and perhaps the political parties ahead of May 2015 may need to consider whether they must also budget for some national insurance concessions to offset these sharp increases in costs.

Section 1 – Pensions in smaller firms today

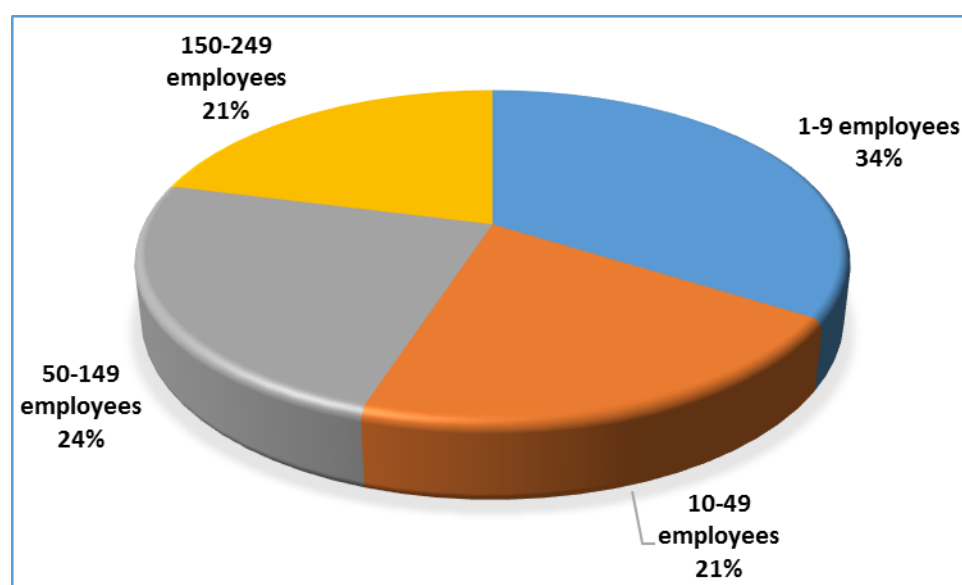
Survey respondents

Just under six out of ten of the firms responding to the survey employ 49 or fewer staff, with the balance of respondents employing between 50 and 249 employees. This sample does not represent a ‘mirror image’ of the UK’s smaller firms sector. If it did, around 98% of the sample would be drawn from firms with 49 or fewer employees⁵.

Equally, with only 31% of respondents indicating they do not run a pension scheme, the sample over-represents the proportion of smaller firms offering pension arrangements. It is estimated **around 75% of the UK’s smaller firms provide no workplace pension scheme albeit around a further 7% make contributions into employees’ personal pensions**⁶. The DWP’s *Employer Pensions Provision Survey* notes only 15% of employers with fewer than 5 employees presently offer a pension – over $\frac{3}{4}$ million employers.

Throughout the survey report, we refer to firms with 50-249 employees as ‘medium sized’ employers, those with 5-49 employees as ‘small’ and those with 1-4 employees as ‘micro’ employers.

Figure 3: Smaller firms - organisations responding to the survey



⁵ Source: BIS Business Population Estimates 2013

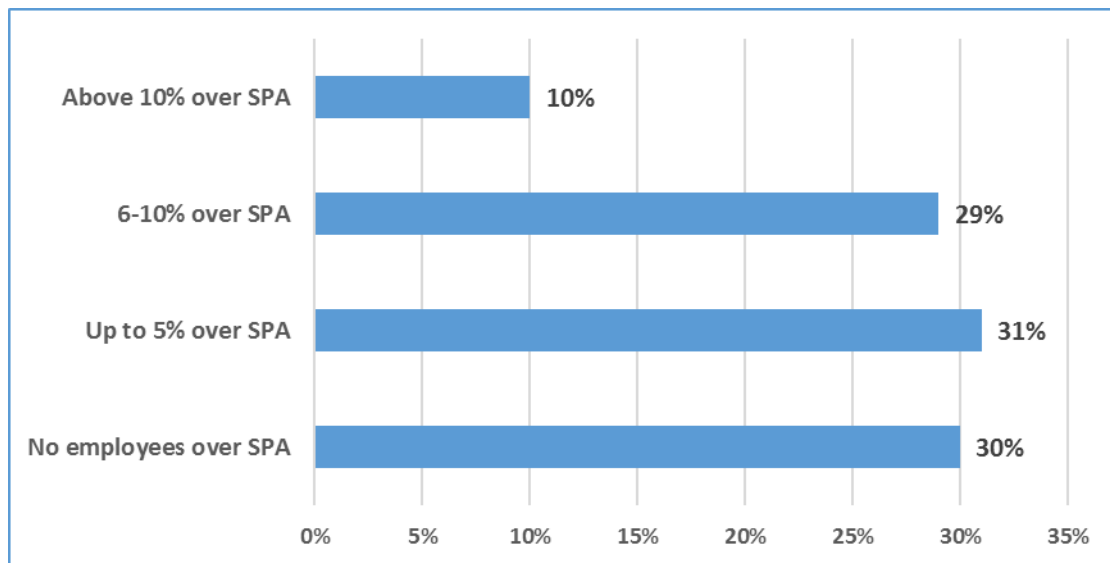
⁶ Source: DWP Research Report *Employers’ Pension Provision Survey 2011*

Pension ages

A recent ONS report⁷ and press coverage has highlighted the rapidly increasing number of employees who are above State Pension Age (SPA). Today, over 10% of those aged over 65 continue to be 'at work' either in a full or part-time role. This trend has been attributed to the removal of the default retirement age – which was fully phased out by October 2011 – and, more particularly, to the financial pressures for those entering their retirement years post-2008. Undoubtedly, a major factor here is the inadequate private pension savings that many millions have made to cover their years in retirement, low investment returns on what savings have been made, reducing levels of workplace provision and continuing high levels of debt. Whilst the Government's 'triple lock' ensures State pensions keep pace with rises in living costs, it remains the case that even the new higher level State pension – coming in from April 2016 – is likely to be far from sufficient to meet most people's expectations for a comfortable retirement income⁸.

Our survey confirmed the most recent ONS data, with four out of ten employers saying that over 5% of their employees are over the current State Pension Age (see Figure 4).

Figure 4: Percentage of employers retaining employees who are over State Pension Age (age 65) at present (i.e. 10% of employers retain more than 10% of employees who are over SPE etc)

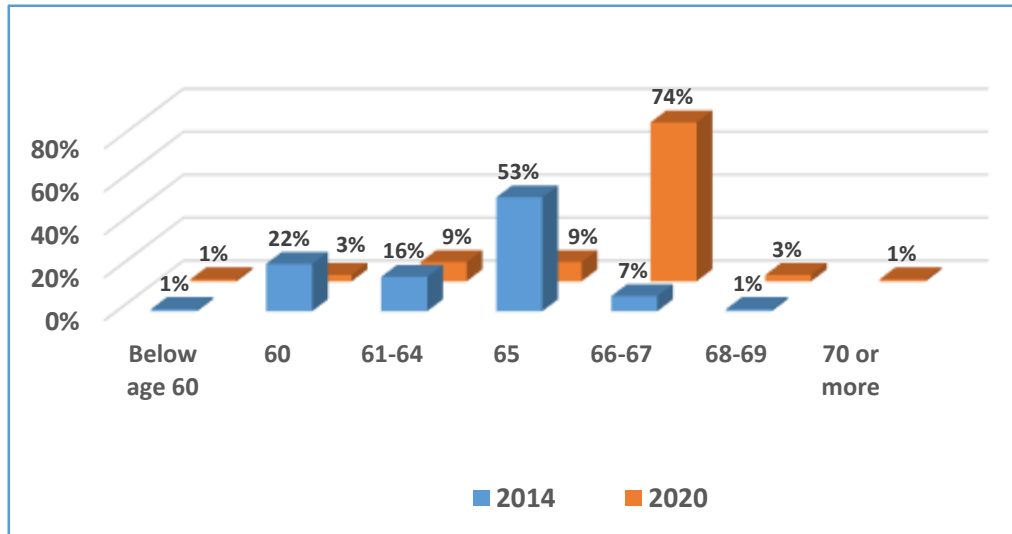


Looking to the future and the increases in SPA – the first to age 66 now just 6 years away – employers expect a rapid shift in the typical retirement age. **Whilst today around a half of their employees retire at age 65 and just 8% at age 66 or above, in just six years (when SPA increases to age 66) the expectation is that three-quarters of their employees will retire at ages 66-67 (see Figure 5).** This indicates that whilst there is a distinction between retirement age and pension age, for the majority the linkage between SPA and retirement age remains largely intact.

⁷ *Labour Force Survey*, published by the Office of National Statistics, September 2014

⁸ An household income of £15,000pa is one measure identified as the 'basic threshold for comfort and financial stability in retirement' see *Retirement Realities: Tomorrow's worth saving for*, published by NEST, 19 May 2014

Figure 5: Typical age at which employees retire at present and employers' forecast as to how this will change by 2020 (when SPA increases to age 67)

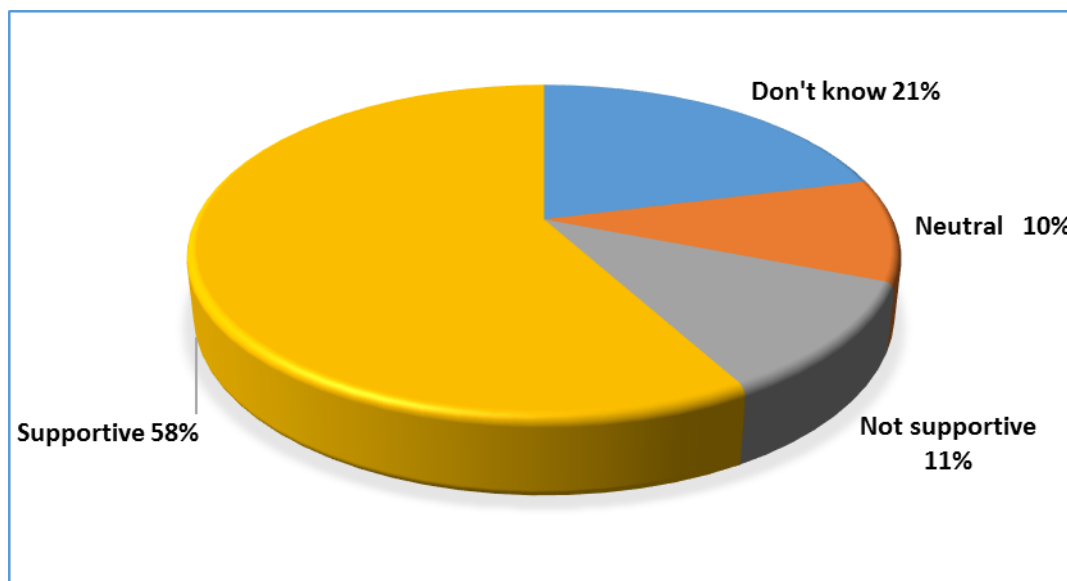


‘Freedom and choice’

The Chancellor’s surprise 2014 Budget announcements on pension reforms, removing the remaining requirements to annuitise, have seemingly been well received by the public and particularly those nearing retirement.

Our survey found close to six out of ten of these smaller employers are also supportive of the new freedoms spelt out in the reforms, with just one in ten opposed (see Figure 6). An even higher number, two-thirds, support in particular the removal of the remaining requirements for individuals to buy an annuity.

Figure 6: Are employers generally supportive of the new ‘freedom and choice’ reforms?



There is however less enthusiasm for the Government’s proposal that access to pension savings should move from age 55 to age 57 in 2028 (when the SPA moves up to age 67 with adjustments to the age thereafter keeping a 10-year gap between the two ages). Just 40% are supportive of this change with 32% opposed.

At the time of writing, the Government has not finalised its proposals on how the ‘guidance guarantee’ for those approaching retirement should work. The service proposed by the Chancellor aims to give those approaching retirement access to information to help them make an informed decision about how they should use their pension savings. Each year around 400,000 people approach retirement and it is unclear how many will seek guidance and, indeed, whether the service will cover those planning for retirement some years ahead.

As a result, it is unsurprising that across all sizes of employers, there is no clear view of the channels employees will use in seeking guidance. **Where employers have taken a view, ‘face-to-face’ meetings are seen as likely to be the most popular channel, followed by web-based tools and then telephone guidance** (see Figure 7).

Figure 7: Employers’ views on the guidance channels that employees approaching retirement are most likely to use (in ranked order)

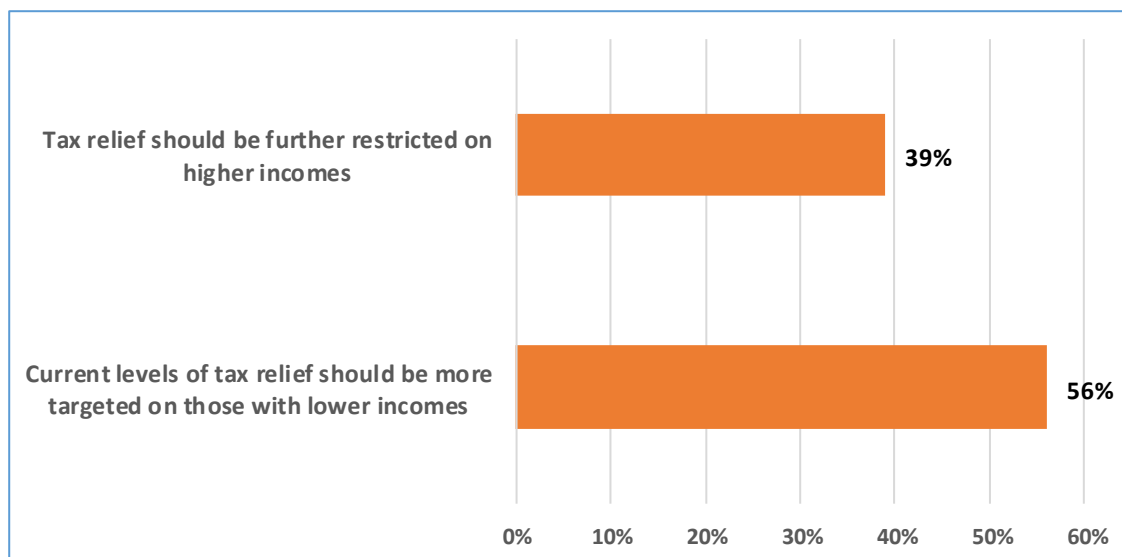
Ranking – 1st ‘most likely’	1-9 employees	10-49 employees	50-149 employees	150-249 employees	All employers
Don’t know	1	1	1	1	1
Face-to-face meetings	2	3	2	2	2
Web-based tools	3	2	3	3	3
Telephone guidance	4	4	5	4	4
Won’t use guidance	5	5	4	5	5

The survey also examined employers’ views on the future of pension tax relief where a debate has begun between the political parties, ahead of the General Election, on new approaches. Also, some pundits believe that the ‘freedom and choice’ reforms, coupled with the Chancellor’s more recent announcement abolishing the so-called ‘death tax’ make the removal or reduction in pension tax relief all the more likely, potentially increasing the tax take by upwards of £6 billion – more if the relief was totally abolished.

Perhaps surprisingly, given the scale of the reductions in pension tax relief on both funds and for those on higher incomes over the last two decades, **56% of employers support further changes whereby current levels of relief are more targeted on those with lower incomes, with over a third also saying that reliefs should be further restricted for those on higher incomes** (see Figure 8). A majority, however, still seem to support the current structure of tax relief to encourage private pension saving.

Whilst there might have been an expectation that employers would oppose further reforms and reductions in tax reliefs, it may be that the generally much lower levels of earnings in smaller firms, considered earlier in this report on pages 7/8 has led to an ‘us’ and ‘them’ feeling of resentment between smaller employers and larger private and public sector employers, where rewards and access to tax reliefs are judged to be much higher.

Figure 8: Level of support from employers on suggestions from some organisations that pension tax relief should be reduced or targeted in a different way



Section 2 - Employers that have passed their auto-enrolment staging date

Conducted in July/August 2014, the survey questionnaire encompassed responses from employers that have reached and passed the prescribed date when they must auto-enrol employees into a qualifying auto-enrolment schemes – essentially firms employing upwards of 60 employees.

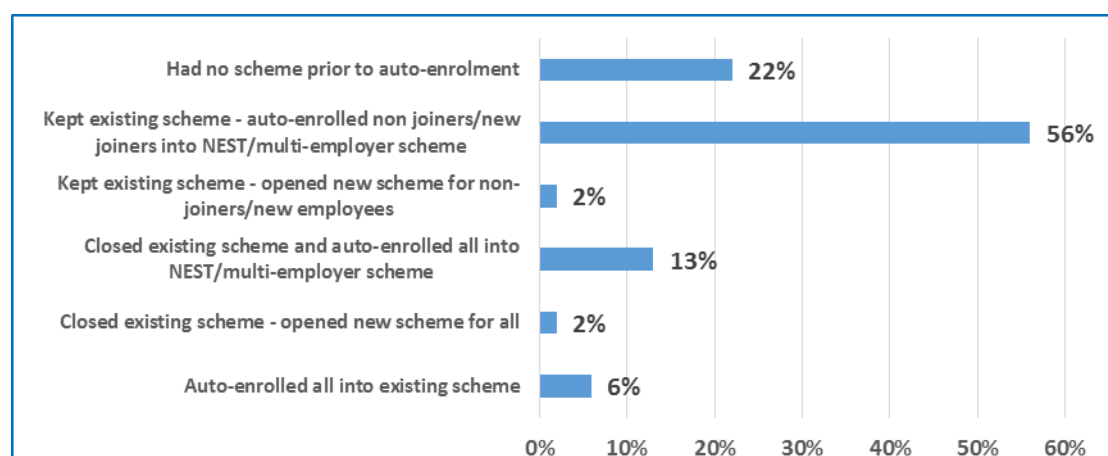
This section of the report covers the findings in respect of the 43% of employers in the sample that have passed their staging date, with the next section reporting on those that have not, with some comparisons between the two groups included.

The new pension scene

The post auto-enrolment pensions scene across smaller employers is beginning to emerge in the results of the survey. Whilst on the whole the sample of respondents included more employers who had pre-existing pension arrangements than seemingly the sector as a whole, the pattern emerging is quite striking.

More detail on the arrangements being used by these employers will feature in our final report of the survey, to be published later this year. The big change is the major inroads made by NEST and other multi-employer arrangements in covering particularly non joiners and new entrants and, of course, employees where no workplace pension arrangements existed prior to auto-enrolment. **Whilst 56% of the employers with pre-existing schemes have kept those arrangements for existing employees, generally non-joiners and new entrants have been enrolled into multi-employer arrangements, including NEST. Some 15% of employers have closed their pre-existing pension arrangements, with over eight out of ten of these opting to enrol all their employees into a multi-employer arrangement, including NEST (see Figure 9).**

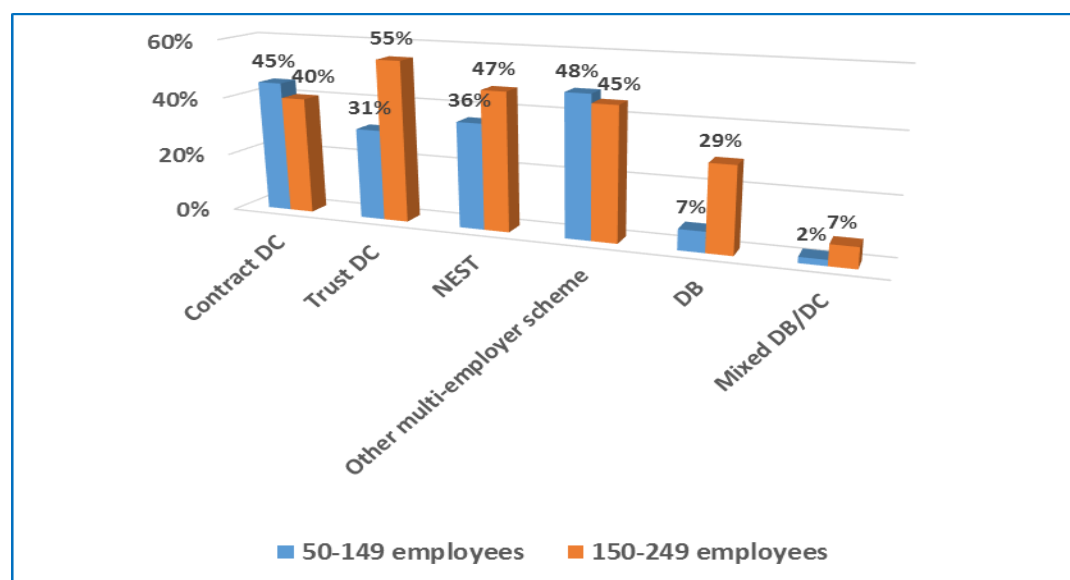
Figure 9: Employers beyond staging date – how their workplace pension arrangements have changed as a result of auto-enrolment



Whilst upwards of a quarter of contract DC and upwards of a third of trust-based DC schemes are now closed to new members, with many also closed to new contributions, such schemes are still widespread amongst these ‘medium’ sized firms. As our next report will reveal, whereas pension contributions into these schemes are well above the current minimum contributions into an auto-enrolment scheme (2% of band earnings), contributions into multi-employer arrangements, including NEST, are in the main at much lower levels at or just above current auto-enrolment minimum requirements.

It will be interesting to see in future surveys whether the structure of schemes will change as the minimum contribution levels are increased in October 2017 and 2018 and, in particular, whether there will be a rationalisation in the number of schemes being run by these medium-sized employers (see Figure 10).

Figure 10: Pension arrangements of employers who have passed their auto-enrolment staging date



The biggest problem experienced by employers in preparing for auto-enrolment was the ‘processes in preparing for change’ followed by ‘regulatory complexity’ and ‘assessment of the options available’ (see Figure 11).

This contrasts somewhat with the views of those employers who have not as yet reached their auto-enrolment date. For them, ‘assessment of the options available’ is the biggest concern, with again ‘regulatory complexity’ following just behind. The different concerns expressed probably reflect the fact that the latter have to date not experienced the process of auto-enrolment, but – as we consider earlier in the report – given the worries over regulatory complexity we do wonder whether the present regulatory regime is appropriate, particularly for those ‘small’ and ‘micro’ employers due to auto-enrol from June 2015 onwards.

Figure 11: Employers beyond staging date – when preparing for auto-enrolment what caused the biggest problem to employers (compared to employers that have not yet reached their staging date)? (in ranked order)

	Employers who have passed staging date	Employers yet to reach staging date
Processes in preparing for change	1	3
Regulatory complexity	2	2
Assessment of options available	3	1
Uncertainty over cost	4=	4
Communications	4=	6
New administrative systems	6	5

Opt-out rates and reasons

One of the achievements to date of auto-enrolment has been the much lower opt-out rate than evidently was expected by Government. Average opt-out rates of around 9% have been reported in surveys⁹ of larger employers and by providers such as NEST as opposed to earlier DWP estimates of opt-outs ranging between 20-35%.

Previous ACA surveys have pointed to quite different opt-out expectations across employers of different sizes. Our *2011 ACA Pension trends survey*¹⁰ reported, on average, that larger employers were budgeting for an opt-out rate of 12%. It was mid-sized, small and micro employers who pushed the average opt-out rate up to around 25%.

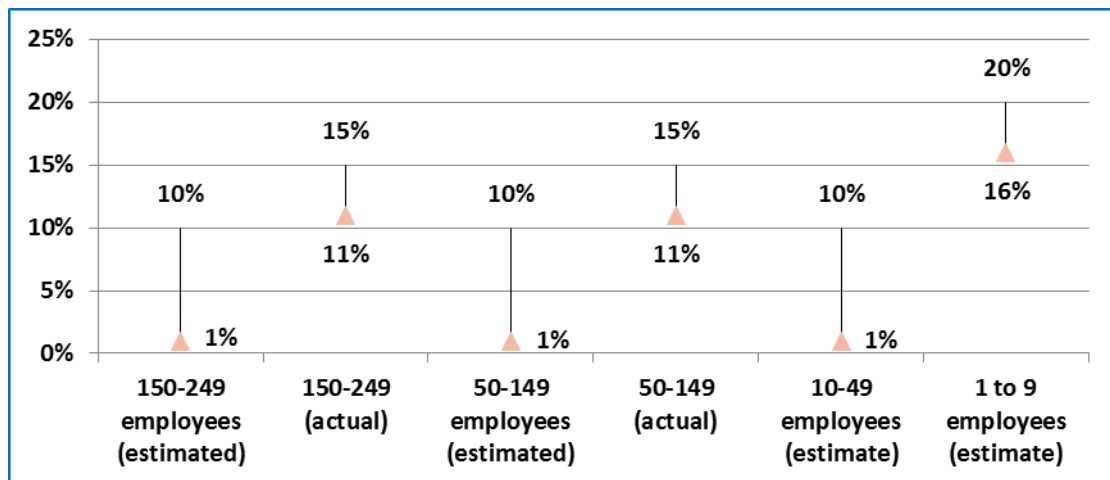
Whilst the low opt-out rate reported from the outset of auto-enrolment might have caused more of these smaller employers to budget conservatively for opt-out rates of between 1-10% of eligible employers, in fact the actual median opt-out level reported to the survey is in the 11-15% band (See Figure 12). This would seem to suggest that opt-out rates amongst these smaller employers are coming in a little higher than the figures reported to date by the Pensions Regulator.

Whilst ‘small’ employers (10-49 employees) are also estimating low opt-out rates of up to 10%, the largest group of other ‘small’ (5-9 employees) and ‘micro’ employers (1-4 employees) are expecting higher opt-out rates in the 16-20% band. As we report later, only a minority of these latter employers have as yet budgeted for auto-enrolment and opt-outs, so these figures may change over time, but they may also reflect the fact that for micro employers just one or two employees opting-out may represent over 25% of their employee numbers.

⁹ *Automatic enrolment opt out rates: findings from research with large employers*, published by DWP (2013)

¹⁰ *2011 ACA Pension trends survey*, published 3 January 2012, page 27 at www.aca.org.uk (Research and Surveys page)

Figure 12: Employers beyond staging date – median opt-out rates estimated ahead of auto-enrolment and median actual opt-out rates (compared with opt-out rates being estimated by employers who have not yet staged)



With their recent experience of auto-enrolment, it is interesting to assess why employers felt employees are opting-out of the pension arrangements provided. **Across all sizes of employers, the prime reason given was that employees ‘prefer to spend income’, with this running ahead of ‘cost-cannot afford’.** Disappointingly, ‘disillusionment with pensions’ was seen as the third most important reason (see Figure 13).

Figure 13: Employers beyond staging date – employers’ view on the main reasons why employees ‘opt-out’ of pension arrangements (in ranked order)

Prefer to spend income	1
Cost – cannot afford	2
Disillusioned with pensions	3
Have own personal pension	4
Prefer non pension savings	5
Lack of interest	6

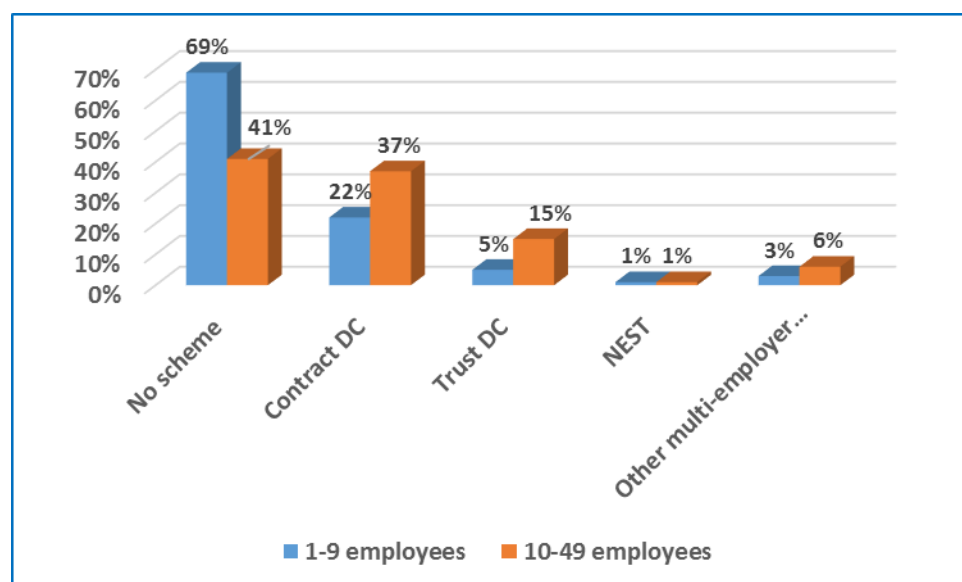
Section 3 - Employers that have not reached their auto-enrolment staging date

Over half of the survey respondents (57%) have not as yet reached their staging date for auto-enrolment. For some the date is relatively imminent, for others the date stretches out into 2017 and 2018.

Pension vacuum at present

The picture of pension provision is very different from that described in the previous section of the report. **Whilst there is some evidence of multi-employer arrangements being established ahead of staging dates, the majority of employers presently provide no pension arrangements at all. Where schemes are present, contract DC arrangements outnumber trust-based DC arrangements (see Figure 14).**

Figure 14: Pension arrangements of employers who have not yet reached their auto-enrolment staging date



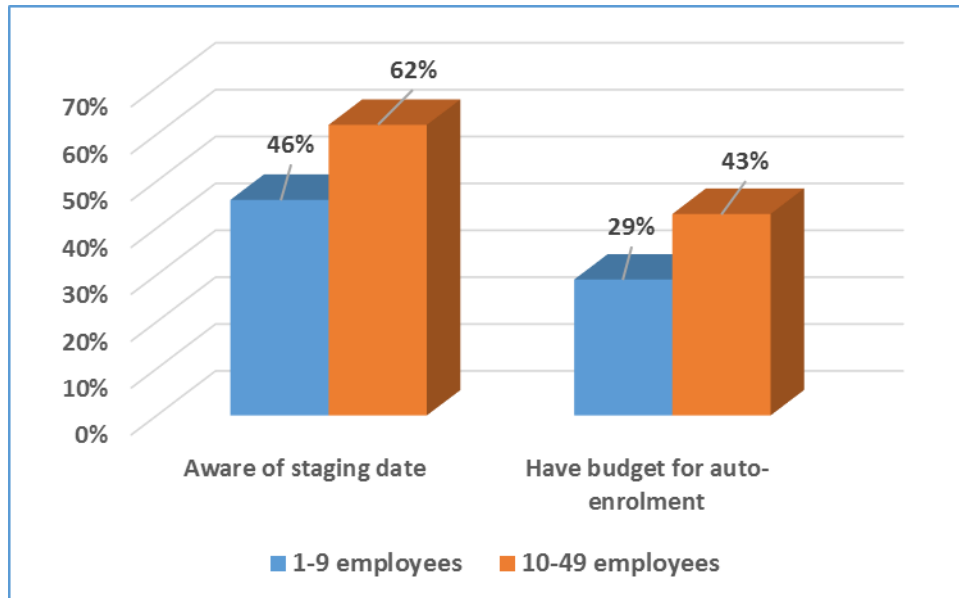
As might be expected, the larger firms in this grouping of employers have a greater awareness of their upcoming staging date and have a budget for auto-enrolment. Earlier surveys by the regulator¹¹ and other organisations generally point to lower levels of awareness of staging (and auto-enrolment understanding) amongst small and micro employers, so it is encouraging that progress appears to be being made as staging dates approach.

That said, amongst micro employers – some $\frac{3}{4}$ million employers – awareness of staging dates (46% of firms are aware) and budgeting for auto-enrolment (29% are doing so) is still quite low and, of course, the ability of the regulator to monitor whether this is a developing

¹¹ Recent research showed around 20% of small employers and almost half of micro employers did not know their staging date, *Employer automatic enrolment research* published by The Pensions regulator, 24 September 2014.

compliance problem will be challenged by the sheer scale of numbers staging from mid-2015 onwards (see Figure 15).

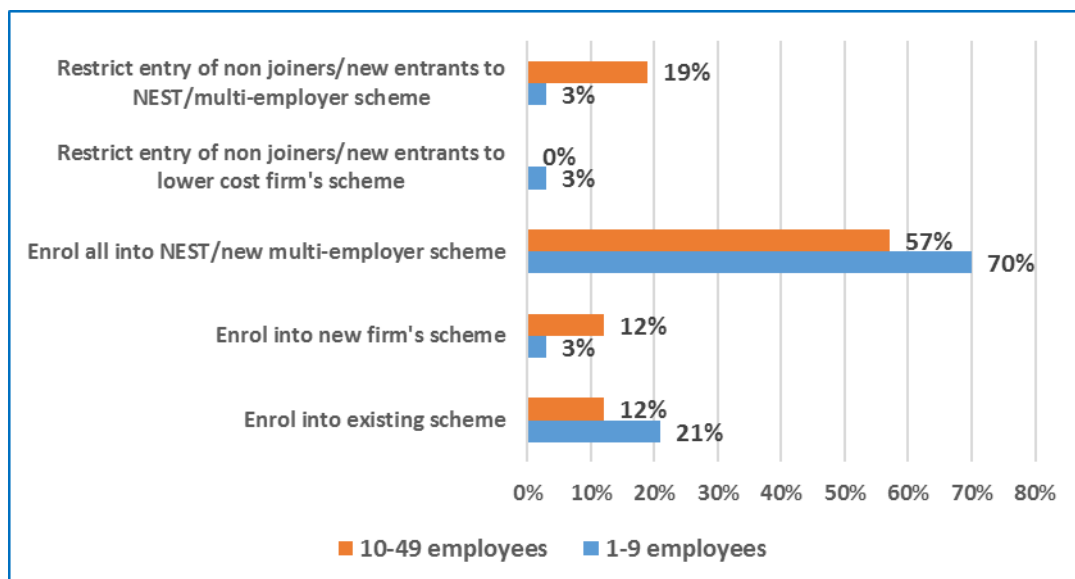
Figure 15: Employers yet to reach staging date – awareness of date when employers must auto-enrol eligible jobholders by and budget readiness



Pension choices ahead

Where small and micro employers have made decisions (most have not) by far the majority have decided to enrol all eligible jobholders into NEST or another multi-employer scheme. Amongst those employing 10-49 employees, 57% are proposing this route; amongst those with 1-9 employees, the figure reaches 70% (see Figure 16).

Figure 16: Employers yet to reach staging date – employers' likely decisions in setting up/changing their workforce pension scheme when they are required to auto-enrol employees into a scheme

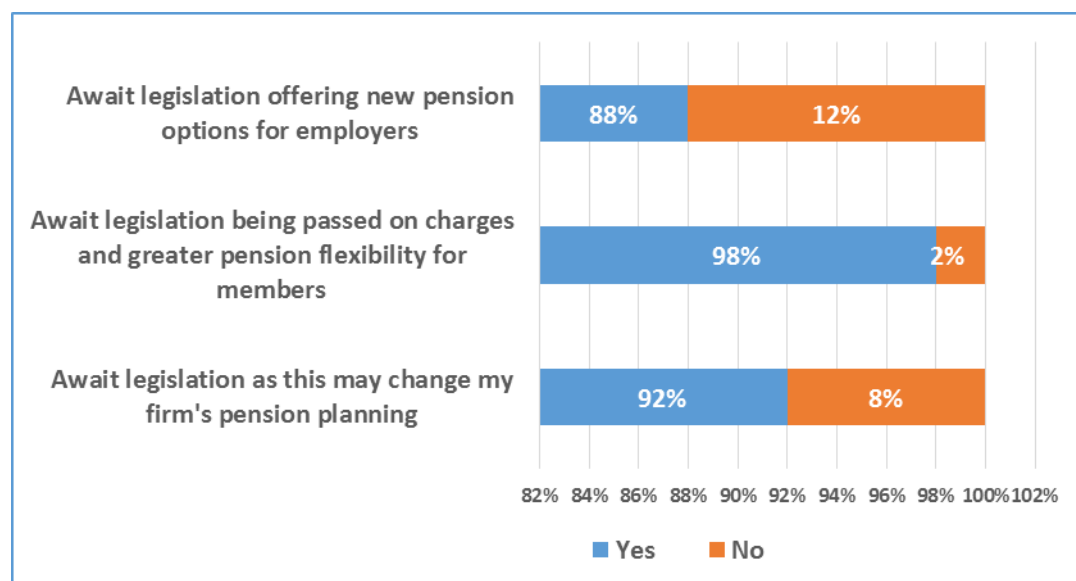


Calls for delay

Since the auto-enrolment policy was passed into legislation and the staging dates decided there has been a relative deluge of further pension reforms announced, most recently culminating in the 'defined ambition' initiative and the 'freedom and choice' reforms. Many of these reforms remain to be finalised, others have only just begun their legislative path. Some of these reforms should and will have a bearing on the pension decisions taken by employers (and their employees) and all are stretching provider and advisory firms' resources over the period ahead. **In such an environment and given the economic backcloth, it cannot be surprising that upwards of nine out of ten employers of these employers feel that a delay or pause in staging should be considered until these reforms are clarified.**

Whilst at this time it seems unlikely the Government will bend in its programme of auto-enrolment, we do wonder – as proposed earlier in the report – whether the incoming Government post-7 May should take a fresh look at the policy so it does not have an adverse impact at this level in terms of cost, regulatory/compliance burdens and job creation.

Figure 17: Employers yet to reach staging date – should auto-enrolment be delayed as a requirement until the Government completes its reform of pensions in terms of charges, new pension options and greater pension flexibility for members?



Appendix - Auto-enrolment: the staging challenge

For small and micro employers auto-enrolment remains between one to three years away. A summary of the dates different sizes of employers have had to or will have to act by is as follows:

- 50 to 249 employees: between 1 April 2014 to 1 April 2015 (upwards of 40,000 firms)
- 30 to 49 employees inc some smaller firms: between 1 June 2015 to 1 October 2015 (upwards of 36,000 firms)
- Fewer than 30 employees: 1 June 2015 to 1 April 2017 (upwards of 1 million firms)
- New employers¹²: 1 May 2017 to 1 February 2018 (maybe upwards of c500,000 firms)
- There is an option to delay staging dates from the above for some smaller employers¹³

The challenging period for those running and monitoring auto-enrolment began in the period from April 2014. Over a 12-month period, some 40,000 enterprises with between 50 and 249 employees will be expected to begin auto-enrolment (unless they already have done so). And then, the far bigger task – between June 2015 and April 2017, when over 1 million enterprises with fewer than 50 employees will be required to introduce auto-enrolment.

Whilst auto-enrolment has been implemented by larger employers with considerable success and, as a result, a much-needed boost has been given to pension coverage, it is clear that considerable concerns remain about the complexity of the detail of the auto-enrolment rules for smaller employers. It is to be hoped that the experiences of larger employers will enable DWP and the regulator to iron out most of the problems, but the task from 2014 in engaging with over 1 million small and micro employers, over three-quarters with 4 employees or less, cannot be under-estimated.

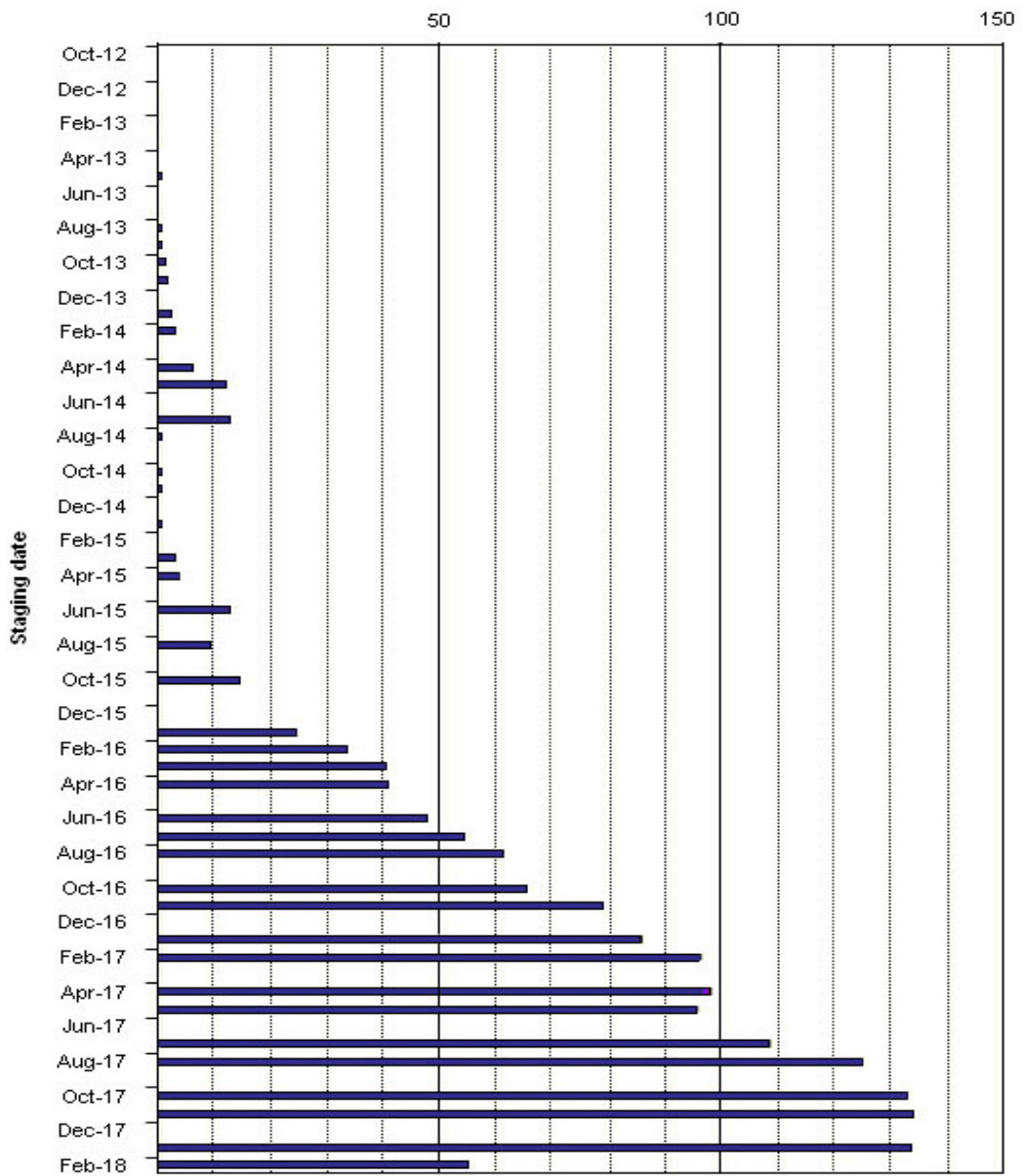
If auto-enrolment is to be effectively implemented down to one-employee firms, this will require huge resources in terms of manpower, finances and advisory services. With the constraints on public spending inevitably falling on DWP and the regulator, there may yet be a need to see some further stretching in staging or even an acceptance that a simpler requirement and/or regulatory regime be applied to micro-employers.

The chart (over page) broadly illustrates the progression of the staging dates from top to bottom, and how many employers via PAYE schemes have and are required to register (in thousands). This vividly shows how relatively few employers have been registered in the early periods, but by 2016 the regulator will have to be both registering and checking compliance of upwards of 25,000 employers and by 2017 upwards of 50,000 employers, every month.

¹² New employers with PAYE scheme set up after April 2012 – September 2017

¹³ Firms with fewer than 50 employees that are part of PAYE schemes with 50 or more employees

PAYE schemes required to register ('000s)



Auto-enrolment: a quick summary

The reforms require employers to automatically enrol 'eligible' workers into a qualifying workplace pension scheme. The enrolment duties are being staged in between October 2012 and February 2018 by size of employer, starting with the largest.

Employees are eligible for auto-enrolment provided they are aged at least 22 and under State Pension age, and earn over £10,000pa in 2014/15 terms (reviewed annually). Initially, until September 2017, contributions have been set at a minimum of 1% employer contribution as part of a total minimum contribution of 2% on a band of earnings (earnings between £5,772pa and £41,865pa) in 2014/15 terms (reviewed annually). By October 2018, once fully phased in, the total minimum contribution will be 8% of band earnings, of which at least 3% must come from the employer and 1% will come from the Government in the form of tax relief. There are provisions for schemes that structure their contributions in different ways to be certificated as qualifying schemes.

Those earning less than £10,000pa can ask to take part in auto-enrolment and, if they earn more than £5,772pa, their employer will be obliged to make the minimum contribution too. Those aged under 22 or over State Pension age and still working can also opt-in in the same way. All employees have the right to opt-out.

Auto-enrolment is expected to reverse the trend of falling private pension income over time. Without it, median private pension income was expected to fall from around £3,900 a year in 2020 to around £2,200 in 2050. It is expected auto-enrolment will reverse this trend so median private pension income is around £3,600 by 2050.

Once fully implemented, automatic enrolment aims to transform the culture of saving, increasing the number of individuals newly saving or saving more in a workplace pension by around 8 million, within a range of six to nine million, and increasing the amount that is being saved in workplace pensions by around £11 billion a year.

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