Understanding employers’ likely responses to the workplace pension reforms 2007: Report of a qualitative study

Laura Tredwell and Andrew Thomas
# Contents

Acknowledgements ........................................................................................................... vii
The Authors.................................................................................................................... viii
Summary ......................................................................................................................... 1

1 Introduction ................................................................................................................. 11
  1.1 Background ........................................................................................................... 11
  1.2 Research aims and objectives ........................................................................... 12
  1.3 Research design and conduct ........................................................................... 13
    1.3.1 Sample design ............................................................................................. 14
    1.3.2 Sample profile ............................................................................................. 15
    1.3.3 Conduct of the interviews ........................................................................... 15
    1.3.4 Analysis of the findings .............................................................................. 15
  1.4 Content of the report ........................................................................................... 16

2 Overview of current pension provision ....................................................................... 17
  2.1 Reasons why employers do, or do not, offer a workplace pension scheme .......... 17
    2.1.1 Reasons for offering a workplace pension scheme ..................................... 17
    2.1.2 Reasons for not offering a workplace pension scheme ............................... 19
  2.2 An overview of current pension provision ........................................................... 20
    2.2.1 Types of workplace pension provision ....................................................... 20
    2.2.2 Contribution levels by employers in the current study ............................... 21
    2.2.3 Enrolment mechanisms .............................................................................. 22
    2.2.4 Participation rates ...................................................................................... 22
    2.2.5 Marketing workplace pension schemes ..................................................... 22
3 Awareness of the pension reforms and the decision-making process ..........25
   3.1 Level of awareness of the pension reforms .............................................25
   3.2 Current level of planning ......................................................................26
   3.3 Likely decision-making process ...........................................................29
      3.3.1 Timing of decisions ...................................................................29
      3.3.2 Nature of the decision-making process .............................................29
      3.3.3 Involvement of external advisers ..................................................30
   3.4 Information needs for decision-making and information sources ........31

4 Managing the likely cost of the pension reforms ......................................33
   4.1 How employers consider they will manage the cost of the pension reforms .............................................33
      4.1.1 The strategies for managing the costs of the pension reforms .........................33
      4.1.2 How employers would determine the strategy for managing costs .........................36
   4.2 The likely impact of postponement periods .................................................38
   4.3 The likely impact of phasing arrangements ................................................38

5 Understanding decisions about likely contribution levels following the introduction of the reforms ..................................................41
   5.1 Factors influencing contribution rate decisions .............................................41
   5.2 Decisions about contributions – employers contributing 3% or more ..................................................42
      5.2.1 Employers contributing 3% or more and likely to maintain existing contribution rate for all workers ..........42
      5.2.2 Employers contributing 3% or more and likely to maintain existing contribution rates for all workers, if costs allow ..................................................43
      5.2.3 Employers contributing 3% or more and likely to maintain existing contribution rates for existing scheme members but reduce rates for new members ..................................................44
      5.2.4 Employers contributing 3% or more and may reduce contribution rates for all workers .........................45
   5.3 Decisions about contributions – employers contributing less than 3% ..................................................47
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Summary

Background and research aims

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

This research forms part of a wider programme of research and analysis to inform policy development, implementation and estimation of the likely impacts of the workplace pension reforms. The programme includes a large-scale quantitative survey of employers which was conducted in 2007. The in-depth study presented in this report comprised follow-up interviews with a sample of employers who took part in the quantitative survey in order to explore the factors driving their responses to the reforms, and their decision-making processes. This report can be read in conjunction with the report from the survey1.

The Department for Work and Pensions (DWP) is keen to understand employers’ likely responses to the workplace pension reforms. This research primarily focuses on the decisions that employers think they are likely to make regarding where they expect to enrol their employees and the level of contribution they will make. It also explores employers’ decision-making processes, their likely activities around promoting membership, and their views around the proposed compliance regime.

Research design and conduct

The research adopted a wholly qualitative approach. This method seeks to provide an in-depth understanding of the full range of views across a diverse group of respondents. It does not indicate how prevalent these views are in the population as a whole.

Sixty-four face-to-face interviews were conducted with a range of employers drawn from participants of the recent DWP sponsored quantitative survey on employers’ responses to the workplace pension reforms. A set of questions was asked at the recruitment stage in order to ensure that the individuals taking part in the research had sufficient knowledge of the company’s pension policy and were directly involved in decision-making about the scheme.

The sample of employers was purposively selected to reflect diversity across a range of key variables:

- size;
- industry;
- current pension provision;
- likely level of contributions made to pensions following the pension reforms;
- where they plan to enrol their employees once the reforms are implemented; and
- likely methods of coping with the costs of the pension reforms.

Fieldwork was carried out by BMRB Social Research between November 2007 and January 2008.

Level of awareness of the pension reforms

At the time of this study, there had been no awareness-raising campaign by the Government relating to the reforms. Any information employers had about the reforms would have been obtained from reports in the media, financial advisers and from information given during the preceding quantitative survey. As part of the qualitative research reported here, employers were first asked about their awareness of the reforms prior to any further information being provided. All employers in this study had some level of awareness of the reforms. The largest employers (250+ employees) and the few employers of any size that had had recent or regular contact with accountants and financial advisers were more aware of the detail of the reforms. Small employers (five to 49 employees) and non-providers did not recall much of the detail but recognised that pensions were changing in 2012 and that employers would need to contribute in some way.
Current level of planning

Generally, respondents had not started taking action in terms of formal planning and decision-making in response to the reforms, and many respondents said they had decided to defer such activities until 12-18 months prior to implementation. However, some employers had started to have informal internal discussions, to explain the reforms to colleagues or to talk informally about changes or checks that might have to be made, and there was some limited evidence of employers already taking action in response to the reforms. There were instances of employers marketing their schemes more actively to boost membership, and instances of employers starting to introduce, or increase, contributions to prepare for the introduction of the 3% minimum employer contribution in 2012.

When provided with currently available information about the reforms, all employers were able to think through the potential impacts of the reforms and their likely strategies and reactions.

Likely decision-making process

Generally, respondents found it difficult to discuss the exact nature of any decision-making process in detail. The planning process was commonly expected to be dependent on how much they needed to change their current pension provision in order to comply with the proposed regulations. Those who anticipated that their schemes would need little or no amendment felt that the decision-making process would be relatively quick and straightforward. Respondents who expected that bigger changes would be required considered that the process would be longer and more complex. They suggested a range of possible stages for this process, such as information gathering and review, and formal presentations of the proposed strategy for meeting the regulatory requirements by the person responsible for managing the workplace pension scheme to other senior decision-makers. Respondents of all sizes said they intended to discuss the reforms with external advisers, such as financial advisers, during the initial stages of planning and decision-making.

Information needs for decision-making

It was difficult for employers to identify specific information requirements beyond their immediate need for more definitive detail of the reforms. However, there were requests for more clarity on the quality requirements for existing pension schemes. More detail of the personal accounts scheme, including how it will compare with existing pension schemes and how it will be administered and managed, was also requested.

Generally, employers in this study were keen to receive clear, straightforward, information outlining the details of the pension reforms, the options available to them and, if possible, cost-based examples of the different options illustrated
by case studies. Some respondents were also keen for the Government to hold seminars where issues could be discussed. Employers in this study generally expected that the Government would take the lead by providing information both online and in written format. Most respondents said they would supplement information from Government with that provided by their professional advisers.

Managing the likely cost of reforms

Some employers in this study did not expect to see an increase in contribution costs as a result of the reforms and were therefore not concerned about costs. These employers tended to have contribution levels of 3% or more, and either already had high participation rates, or budgeted for 100% participation.

However, there were also some employers with low current participation rates who said they were not concerned about costs because they anticipated high levels of opt-out amongst their employees. Although they were aware that they could not accurately predict employees’ behaviour, they thought that while automatic enrolment may initially boost take-up among their employees, a perceived lack of affordability and lack of interest in pensions may well lead later to employees leaving the scheme, particularly lower paid, casual and younger workers.

When discussing the strategies which respondents felt they might take in order to manage the potential costs of the reforms, it was apparent that the company's profit margins and the perceived magnitude of the additional costs were key factors that underpinned the likely choice of cost-management strategy. However, it was also apparent that the strategies they thought they might adopt were fluid and open to change, depending on their financial situation and the nature of their competition in 2012.

Taking into account these factors, respondents mentioned five possible coping mechanisms. These were:

- Increasing prices: employers that were particularly concerned to preserve their profit margins, particularly service sector firms and those with shareholders, expressed a preference to pass on the increased cost of the pension reforms through an increase in prices.

- Absorbing the increased costs through reducing the company profits: this strategy was mentioned by respondents who were particularly keen to remain competitive and avoid increasing prices. In particular, companies that were neither part of a conglomerate nor listed on the stock exchange felt that there was less pressure on them to maintain profitability and considered that, if no other method were open to them, they would be most likely to manage any costs by absorbing them and reducing overall profit margins.

- Lower wage settlements: some medium-sized employers in the manufacturing and service sectors considered that they might offset any increased pension costs by either reducing wages or limiting future wage increases.
- Increased sales: this strategy was mentioned by employers who tended to be committed to delivering a set level of profit to a parent company but did not consider that increasing prices was a viable option. They therefore considered that they would offset any additional costs of the pension reforms by increasing sales.

- Reducing the current level of pension contributions or introducing differential contribution rates: this strategy was generally seen as a last resort.

There were also some limited instances of employers considering that they might reduce staff hours or make redundancies, of employers saying they may try to find a way to employ people below the minimum wage, and of employers considering they might encourage opt-out of the pension scheme. These strategies were mentioned as possibilities only if the costs of the pension reforms proved to be too high and employers did not consider that they had the choice of offsetting costs through increased prices or reduced wages or profits.

Likely impact of postponement periods

Under the Government’s reforms, employers already making contributions at a level above the 3% minimum can choose to postpone automatic enrolment for new members to encourage these employers to continue to offer these high-contribution schemes – this is called a postponement period.

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

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

Likely impacts of phasing arrangements

Respondents were told that in future, employers who operate qualifying money purchase schemes, including the personal accounts scheme, will have the opportunity to phase in minimum contributions over a transitional period as a means of managing the costs of the pension reforms. The minimum level of total

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2 Since this study was conducted, a decision was made to take legislative measures to prohibit employers from inducing workers to opt out of scheme membership.

3 Described as waiting periods to employers during the interviews.
contributions would also be phased in, meaning that members too could adjust to pension saving gradually.

Employers in this study with high levels of participation and those that budgeted for 100% participation considered that the phasing arrangements were unnecessary for them. By contrast, respondents with pension schemes with low or medium participation rates, non-contributors and non-providers, welcomed the proposal for phasing as they considered that such arrangements would help them to better manage the costs of the pension reforms. However, there were some instances of employers in this position considering that the company should get used to the increased costs with immediate effect.

Understanding decisions about likely contribution levels following the introduction of the reforms

Employers’ views about their likely contribution levels following the reforms varied widely and were dependent on a number of factors such as their current provision, contribution levels and participation rates.

Employers who were currently contributing 3% or more were generally keen to maintain their current levels of contributions for all workers. They were committed to providing pensions for their employees, and said they saw this as part of their social responsibility, and as a means of maintaining parity with the rest of their industry. Those with high participation rates in their existing schemes were confident they would be able to maintain their contribution rates, as they did not anticipate significant increases in costs following the reforms. Those with lower levels of participation were generally more concerned about the cost impact of the reforms, and said they may have to consider offering lower contributions to some employees, although they saw this as a last resort. Exceptionally, there were some instances of employers contributing 3% or more who were not committed to pension provision and said they would therefore consider reducing their contribution levels for all workers.

Employers who were currently contributing less than 3%, contributing nothing, or who did not provide access to a pension scheme commonly said they would increase their contribution levels to the minimum level. These employers typically felt they could not afford to contribute more than the minimum, and generally did not value pension provision. However, there were some instances of employers with pension schemes to which they did not currently contribute who felt that they might contribute more than 3% in future if they could afford it. These respondents considered that the 3% minimum contribution level would not be sufficient to provide a reasonable income for workers in retirement.
Understanding decisions about likely enrolment behaviour

**Providers**

Employers with existing provision were generally keen to enrol people into their existing scheme, rather than a new scheme or the personal accounts scheme. This was for four reasons:

- a preference for simplicity and for not increasing the number of schemes they had;
- some employers had a strong commitment to the type of pension scheme they were currently offering and could not see any benefit in changing;
- some employers had different contribution levels for different types of employees in the same pension scheme. They considered their existing scheme as the simplest option especially if it was flexible enough to manage employees on full-time, part-time and fixed-term contracts in addition to different contribution levels within the same scheme; and
- some employers with existing provision expressed a resistance to using the personal accounts scheme as these employers, despite explanation to the contrary, saw this as a Government sponsored pension scheme and were not convinced that it would be as effective as, or comparable in cost to, other schemes in the market.

By contrast, employers that were making a contribution to an employee’s own personal pension, that is, a pension scheme the employee had organised independently for themselves through a pension provider, commonly thought that they would move to the personal accounts scheme in 2012 because they assumed this would be administratively simpler and cheaper than their current arrangements.

**Non-providers**

Most non-providers considered, in general, they would enrol their employees into the personal accounts scheme. This was for a number of reasons:

- the personal accounts scheme was thought likely to be straightforward and cost-effective;
- it would provide considerable portability to their employees;
- it would be less costly than setting up their own scheme;
- they had little time and less inclination to explore alternatives; and
• an (incorrect) assumption that, as the personal accounts scheme is being introduced by the Government, that it would have some form of Government backing or guarantee.

However, there were some employers in this study without current provision who said that they might set up their own scheme, rather than use the personal accounts scheme. This was for a number of reasons:

• they felt that setting up their own scheme would help to establish company identity;
• they felt they would have greater control over their own scheme;
• a view that better investment returns would be available through a company-specific scheme; and
• a view that initiatives spearheaded by Government were likely to be inefficient and not cost-effective.

These employers that had decided to set up their own scheme were at a pre-planning stage, and said that they may reconsider their views later.

Employers’ views about the proposed quality requirements

Under the proposed reforms employers will be required to automatically enrol eligible employees into a qualifying pension scheme. Employers in this study were given definitions of the proposed quality requirements according to the type of pension scheme they had in place and asked to consider whether their scheme would qualify and to comment on the detail of the quality requirements. Respondents recognised and accepted that workplace pensions would be required to fulfil certain quality requirements. They commented on the potential additional cost of administration of including extra elements in the pension contribution calculation, such as over-time and bonuses. Although respondents’ concerns were mitigated by the realisation that the value of minimum pension contributions would be limited to the band of qualifying earnings, some employers were concerned about the additional cost of contributions if bonuses were included.

4 It should be noted that, during the interviews, employers were told that the personal accounts scheme would be run by an independent trustee who would run the scheme autonomously at arm’s length from Government. Nevertheless, some employers felt that, as the Secretary of State was establishing the scheme, the Government would be involved in running it to some extent and would, therefore, act as a kind of guarantor.
Views about the provision of information to employees about the pension reforms

Employers in this study said they expect to play some role in communicating information about the reforms to their employees, but believe the overall burden of responsibility for educating employees should lie with the Government. They expect to see a high profile advertising and education campaign in the year leading up to the introduction of the pension reforms.

Respondents commonly felt they did not want the burden of producing information for workers, and would be looking for ‘ready to use’ information booklets from Government or pension providers that they could pass on.

Providers in this study commonly thought they would be likely to arrange presentations or face-to-face meetings alongside the provision of written information. These employers generally thought that they would ask a pension adviser to make the presentations, although some of the larger firms felt that they may undertake these themselves, in conjunction with an adviser.

For employers of all sizes there were widespread concerns about being perceived to be providing financial advice and they said they would therefore ask advisers and providers to discuss the financial aspects of pension provision.

Employers’ views about encouraging participation

Respondents were divided over whether they would actively encourage employees not to opt out of their chosen pension scheme. Their attitudes towards this seemed to be related to the perceived costs of the pension reforms in terms of pension contributions and the value and importance they attached to employee pension provision. Employers that provided a pension scheme for paternalistic reasons and/or those with pension schemes that had a high level of participation commonly said they would encourage employees not to opt out of the pension scheme. Employers in this study – particularly non-contributors and non-providers – that were less convinced of the importance of pensions and/or potentially faced higher contribution costs generally thought they would adopt a ‘hands off’ approach and would neither encourage nor discourage their staff either way. Whilst not widespread, there were some instances where employers who felt they faced increased costs that they could not sustain said they may encourage opt-out. They considered that they might do this by offering workers an incentive to opt out (even though they expected that this would be illegal) or by letting staff know about the perceived implications any increased costs would have on the company’s financial situation⁵. However, in general respondents felt that encouraging opt-out would be unethical.

⁵ Since this study was conducted, a decision was made to take legislative measures to prohibit employers from inducing workers to opt out of scheme membership.
Employers’ views on the proposed compliance regime

It was explained to respondents that the proposed compliance regime would involve the use of data matching to identify where employers were failing to meet their requirements. It was then explained that where a failure was identified, employers would be sent reminder letters. Penalties and the possibility of court action might follow. In addition, individuals would be able to ‘whistle-blow’.

Overall, employers in this research did not have any major issues with the suggested compliance regime, as long as it did not become too heavy handed and burdensome. In general, respondents said that the detail of the regime was ‘as expected’ and it was seen to be similar to other compliance regimes already in place.

Respondents felt that non-compliance penalties were fair but thought that there should be sufficient time for the legislation to bed in before they were imposed. They also felt that the penalties should be proportionate, linked to the size of the employer and the costs they would have incurred had they complied.
1 Introduction

1.1 Background

The Pensions Act 2008 sets out a series of measures aimed at encouraging wider participation in private pension saving. The aims of these reforms are to overcome the decision-making inertia that currently characterises individuals’ attitudes to pension saving and to make it easier for individuals to save for their retirement. The measures set out in the Act include a duty on employers to automatically enrol their employees into qualifying workplace pension provision and to provide a minimum contribution towards the pension saving for those employees who participate. This duty will come into force from 2012.

Employees will be automatically enrolled if they are aged between 22 and State Pension Age, have gross annual earnings of around £5,000 or more, and are not already members of a qualifying workplace pension scheme. Employees will be able to opt out of the scheme if they wish, and those who choose to opt out may be re-enrolled after a set period of time. Employees who are not eligible for automatic enrolment may choose to opt in to qualifying workplace pension provision.

Employees who choose to remain members of a qualifying workplace pension scheme will receive at least 3% of their qualifying earnings (between a band of £5,035 and £33,450 in 2006/07 earnings terms) from their employer, and a further 1% from the Government in the form of normal tax relief. The minimum overall contribution needs to be 8%, so employees of an employer that contributes 3% will need to put 4% from their pay. Employees and employers may contribute more than the minimum if they wish.

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6 The earnings limit is £5,035 in 2006/07 earnings terms and will be up rated in line with earnings using the Average Earnings Index.

7 Annual contributions into the personal accounts scheme will be capped at £3,600 (2006/07 earnings terms). The contribution limit will be up rated in line with earnings.
The Pensions Act 2008 also sets out a plan for the establishment of a new national occupational pension scheme, the personal accounts scheme, which employers can use as a qualifying scheme. The personal accounts scheme will be run at arm’s length from Government by a sole corporate trustee.

The Department for Work and Pensions (DWP) commissioned BMRB Social Research to conduct a survey among private sector employers in 2007. This was the second survey amongst employers to examine their reactions to the introduction of automatic enrolment with a minimum employer contribution, the first having been carried out in 2006.

This research forms part of a wider programme of research and analysis to inform policy development, implementation and estimation of the likely impacts of the workplace pension reforms. The in-depth study presented in this report comprised follow-up interviews with a sample of employers who took part in the earlier quantitative survey. Factors driving employers’ responses to the reforms and their decision-making processes were explored to provide an insight and understanding into why they will respond in a certain way. This report can be read in conjunction with the report from the survey\(^8\), which gives an indication of the expected prevalence of the attitudes and behaviours explored in this report.

The Department’s programme of research also includes a parallel nationally representative survey and qualitative follow-up study of individuals’ attitudes and likely reactions to the workplace pension reforms among those eligible for automatic enrolment\(^9\).

1.2 Research aims and objectives

The principal aim of this qualitative research was to understand employers’ likely behaviour in relation to the workplace pension reforms. The research primarily focuses on the decisions that employers say they will make regarding where they expect to enrol their employees and the level of contribution they will make. It also explores the decision-making process and employers’ likely activities around promoting membership and views around compliance.


Specific objectives of the project were to:

- explore the reasons for the current level of pension provision and take-up;
- examine employer awareness of the workplace pension reforms;
- explore the stage employers are at in their decision-making process, the nature of that process and when and by whom, decisions will be made;
- consider employers’ information needs to aid decision making, preferred sources of information and channels;
- explore the likely impact of the reforms on employers, how they propose to manage the costs and the factors influencing their decisions;
- explore employers’ likely responses to the reforms in terms of contribution levels, where they will enrol people, and the factors influencing their response (including the influence of phasing and postponement periods);
- gain views on the proposed quality requirements for workplace pension schemes;
- consider how employers would provide and present information on the reforms to their employees and what action they will take in relation to employee participation in the scheme; and
- elicit views on elements of the proposed compliance regime.

1.3 Research design and conduct

This study adopted a wholly qualitative methodology. Respondents were drawn from participants of the 2007 survey on employers’ attitudes and likely reactions to the workplace pension reforms, also conducted on behalf of the DWP by BMRB Social Research.

The main benefit of using the companion survey as a sample source is that some information had already been collected about the employers’ pension provision (if any) and likely responses to the reforms, so it was possible to sample on specific behaviour criteria.

By following up survey participants with in-depth qualitative interviews, researchers were able to further explore and gain a better understanding of how and why employers had arrived at their decisions, particularly in relation to key issues such as where employees will be enrolled and how they will deal with contribution levels in the future. It also allowed researchers to explore how far employers had got in their thinking about the pension reforms and their likely strategy for managing the costs.

Face-to-face in-depth interviews with employers were used. This allowed the research team the flexibility to explore the range and diversity of views and more fully investigate the attitudes of employers towards the workplace pension
reforms. As it was expected that awareness of the detail of the reforms would vary, a series of show cards were used, designed specifically for this study, which provided employers with an overview of the reforms (see show cards within the topic guide in Appendix A for details).

Interviews were conducted with 64 employers spread across five regions (London, South East, West Midlands, East Midlands and South Yorkshire). Fieldwork took place between November 2007 and January 2008.

A set of questions was asked at the recruitment stage in order to ensure that the individuals taking part in the research had sufficient knowledge of the company's pension policy and were directly involved in decision making about the scheme. The job title of the person interviewed varied according to the company size. The job titles of interviewees are shown in Table 1.1, with the most frequent job titles shown in bold type.

**Table 1.1 Respondents’ job titles**

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<thead>
<tr>
<th>Micro</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
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</thead>
<tbody>
<tr>
<td>Director/Owner</td>
<td>Finance Director</td>
<td>Chief Finance Officer</td>
<td>Pensions Director</td>
</tr>
<tr>
<td>Company Secretary</td>
<td>Director/Owner</td>
<td>Payroll-Manager/Pension Manager*</td>
<td>Finance Director</td>
</tr>
<tr>
<td>Company Accountant</td>
<td>Business Manager</td>
<td>HR Manager</td>
<td>Pensions Manager</td>
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<td></td>
<td>Company Secretary</td>
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<td>Rewards Manager</td>
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<td>Benefits Manager</td>
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<td></td>
<td></td>
<td></td>
<td>Pension Fund Trustee/Payroll Manager*</td>
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<td>HR Director</td>
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</tbody>
</table>

* Respondents indicated that these were dual roles.

1.3.1 Sample design

The sample was designed to ensure full coverage of the employer population based on key characteristics and attitudes, in order to identify and explain variations in the nature of experiences between them. Ensuring diversity within the sample allowed the research to build a more complete picture of how different types of employers are likely to respond to the reforms and the range of decision-making processes they are likely to go through.

The sample was selected from the companion quantitative survey in the following manner:

- overall, quotas were set for employer size, current level of pension provision, and likely future contribution levels;
- quotas were also set for current and future pension provision within each employer size category;
- broad quotas were set across the sample as a whole for the likely coping mechanism that they would use in responding to any costs of the reforms;
• the sample was then selected to reflect a broad spread of employers, but without setting quotas, in terms of:
  – industry;
  – type of current main open pension schemes; and
  – current pension scheme membership level.

1.3.2 Sample profile
A total of 64 employers took part in the research. Tables B.1 and B.2 in Appendix B outline the profile of those taking part in the study.

1.3.3 Conduct of the interviews
All the interviews were exploratory and interactive in form so that questioning could be responsive to the experiences and circumstances of the individuals involved. They were based on a topic guide, see Appendix A, which outlined the key themes to be addressed and the specific issues for coverage within each theme. Although topic guides ensure systematic coverage of key points across groups of people, they are used flexibly to allow issues of relevance for participants to be covered. Show cards were used as a stimulus material to help facilitate the discussion around particular details of the pension reforms (see show cards within the topic guide in Appendix A for details). All the interviews were recorded after first securing the agreement of participants.

The interviews were carried out in the respondents’ offices and the interviews lasted approximately one hour.

1.3.4 Analysis of the findings
Verbatim transcripts, produced from digital recordings, were subject to a rigorous content analysis (Matrix Mapping), which involved systematically sifting, summarising and sorting the verbatim material according to key issues and themes within a thematic framework. These analytic charts formed the basis of the evidence reported in the following chapters. Further details of the analytical process used may be found in Appendix C.

Adopting a qualitative approach has made it possible to report on the range of views, experiences and suggestions reported by participants. Where evident, distinctions have been drawn between different sub-groups, in particular different sizes of employers as well as their current pension provision and likely responses to the reforms. The purposive nature of the sample design as well as the small sample size, however, means that the study does not provide any statistical data relating to the prevalence of these views. The aim of qualitative research is to define and describe the range of emergent issues and explore linkages, rather than to measure their extent.
The findings have been illustrated with the use of verbatim quotations. The quotations from employers have been edited for clarity but care has been taken not to change the respondents’ meaning in any way – any alterations are shown using parenthesis and ellipses.

Quotations are attributed, anonymously, using the following convention:

- **employer size**: micro (1-4 employees), small (5-49 employees), medium (50-249 employees), large (250-499 employees) and ‘very large’ (500+ employees);
- **type of largest open pension scheme**: defined benefit (DB) occupational, defined contribution (DC) occupational, Group Personal Pension (GPP), Stakeholder Pension (SHP), personal pension (PP);
- **level of current pension scheme participation (if relevant)**: zero, low (less than 25%), medium (25% to 74%), high (75% to 100%); and
- **industry sector**: services, manufacturing, retail, ‘other’ industry sector (includes educational, communications and financial organisations, law, housing management, waste disposal and recruitment).

1.4 **Content of the report**

This report outlines the findings from this qualitative research in six further chapters:

- **Chapter 2** provides an overview of employers’ current pension provision, the reasons for their current level of provision, enrolment practices and level of take-up;
- **Chapter 3** explores employers’ awareness of the pension reforms, the likely timing and nature of their decision-making process and their information needs;
- **Chapter 4** focuses on how employers consider they will manage the costs of the pension reforms;
- **Chapter 5** explores the likely contribution behaviour of employers and the reasons for their decisions;
- **Chapter 6** considers where employers are likely to enrol their employees and the reasons for their decisions; and
- **Chapter 7** considers employers likely activities in relation to the reforms in terms of their communication with their employees and in terms of compliance.
2 Overview of current pension provision

This chapter provides an overview of the pension profiles of employers participating in this piece of research, in order to set the context for the subsequent chapters. These findings relate only to respondents in this study and are not nationally representative. Readers who are interested in the levels and types of workplace pension provision in Great Britain should refer to the Department’s survey of employer pension provision carried out in 2007\(^\text{10}\).

The first part of the chapter considers the reasons why employers do, or do not, offer a workplace pension scheme to their employees. The second part of the chapter provides a brief description of the employers’ current provision in terms of the types of pension schemes offered, contribution levels, eligibility and how schemes are marketed by employers to their employees.

2.1 Reasons why employers do, or do not, offer a workplace pension scheme

2.1.1 Reasons for offering a workplace pension scheme

Employers had a number of reasons for offering a workplace pension scheme. These were:

- **Social responsibility** – A belief that employers have a social responsibility to help their workers save for retirement. While there was no apparent difference between employers across industry sectors, those more likely to give social responsibility as a reason for their pension provision tended to be long-standing, large and medium-sized employers, mainly contributing 3% or more.

‘It’s social responsibility and the fact that we want to be seen as a responsible employer.’

(Large employer, DC occupational, high participation, manufacturing)

‘I think it’s quite a benevolent attitude really…this is something important.’

(Medium-sized employer, GPP, medium participation, manufacturing)

‘We take quite a paternalistic view of things, we view it as important that people save for their retirement, and that if we don’t do it they won’t necessarily do it themselves.’

(Small employer, GPP, high participation, ‘other’ industry sector)

- **Recruitment and retention aid** – Employers operating in ‘white collar’ professional industries such as law and finance said that competition for good staff was high, with potential recruits expecting good pension provision. This often meant matching competitors’ remuneration packages, of which pension provision was a part.

  ‘It’s the usual reasons…we have to attract and retain people in the organisation. There’s an expectation that banking benefits will include pension provision. Banking benefit is usually quite generous…pension provision needs to be competitive so that we get the right people in the organisation. I think there’s also a…paternalistic element because you could just give people more cash…I think there’s an element of actually trying to provide something more than just money.’

  (Very large employer, GPP, high participation, ‘other’ industry sector)

  ‘…to match the package that is being offered by other competitors in the market place…we don’t have a social conscience because we are here to make money…but it is something that we have had to match as we have to match other benefits that are contained in packages like private health, car allowance etc.’

  (Medium-sized employer, GPP, medium participation, services)

- **An ‘expected’ benefit/historical reasons** – Employers were sometimes not able to pinpoint any strong motivations for their pension provision, other than a belief that pensions were seen as an expected element of the wider benefits package within a ‘decent company’ and something they ‘have always done’.
‘I think that a lot of our benefits have been introduced because they are expected. I think the philosophy doesn’t really go much further than that particularly with regard to pensions. I think that we offer quite a large package of benefits and pension is a part of them but it is not seen as that significant and I think that it is a testament to the fact that we don’t have problems recruiting…there has never been any reason for us to increase our contributions towards people’s pensions.’

(Medium-sized employer, GPP, medium participation, ‘other’ industry sector)

• Legal requirement – Employers that had no commitment to a pension scheme provided a Stakeholder pension because they were legally obliged to do so. In almost all these cases the employer did not make a contribution.

‘…why we have a Stakeholder [pension]? The law. We had to. Our financial adviser told us that we had to, even if no one wanted it. …No, we don’t put anything [contribution] into it.’

(Medium-sized employer, SHP, zero participation, ‘other’ industry sector)

2.1.2 Reasons for not offering a workplace pension scheme

Employers that did not provide a workplace pension scheme were micro employers or small in size\(^\text{11}\). They gave a variety of reasons for their current lack of provision. Commonly held themes were:

• A view that it was an individual’s responsibility to provide for their retirement

‘My business is running a profitable company, not spoon feeding my employees. They should be quite capable of looking after themselves. It just seems wrong to me to provide a pension scheme…because that is their business.’

(Micro employer, non-provider, ‘other’ industry sector)

• A pension scheme not seen to act as a recruitment or retention tool

‘There has never been any difficulty in recruiting people and I think because people are loyal they don’t move very often, so I don’t see the need to provide a pension scheme.’

(Micro employer, non-provider, manufacturing)

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\(^\text{11}\) The companion quantitative survey found that most (87 per cent) non-providers were micro employers (one to four employees) and 13 per cent had five to 49 employees. It should be noted that it is a legal requirement for employers with five or more relevant employees to provide access to a SHP, if there is no other workplace pension option.
• The perceived cost of a pension scheme was too high
  ‘…we are barely profitable…if I paid a pension I would be loss-making.’
  (Micro employer, non-provider, ‘other’ industry sector)

• Employment of casual or temporary staff – a very fluid workforce
  ‘…this is a very seasonal business and we employ people at certain peaks in
  the year…pension? …pension has never really occurred to us because I can’t
  see that someone who works here for a few months would want one. Oh,
  we have a stakeholder – no, there’s no contribution from us…but we have
  it because we have to.’
  (Small employer, SHP, zero participation, services)

Other reasons given for their current lack of provision were:

• Disillusionment with pensions as a vehicle for retirement funds
  ‘I look at pensions and see them as a bottomless pit – the amount you put
  in seems enormous for what you get out…and what you get out nowadays
  is so variable and vulnerable to the [financial] markets. I prefer to do other
  things with my money…I don’t know what [employee] does.’
  (Micro employer, non-provider, ‘other’ industry sector)

• Lack of demand from employees for a pension scheme
  ‘…yes, I have asked them [employees] but they don’t want one. In fact I
  have asked them a couple of times and they are not interested. And when I
  took on [employee] he didn’t ask for one.’
  (Micro employer, non-provider, manufacturing)

2.2 An overview of current pension provision

The following sections provide an overview of the current pension provision of the
participants in this study, to provide context for subsequent findings. These figures
relate only to respondents in this study and are not nationally representative. Readers who are interested in levels and types of workplace pension provision
in Great Britain should refer to the Department’s survey of employer pension
provision carried out in 2007.

2.2.1 Types of workplace pension provision

There was a spread of different scheme types across employers of all sizes,
with the exception of micro employers. Micro employers, if they made pension
contributions, did so into individuals’ PP schemes.

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12 Although this employer had an available SHP scheme, the scheme had no
members and the employer viewed themselves as a non-provider.
DWP Research Report No. 545.
Employers with an open DB occupational scheme tended to be those within the community and voluntary sectors while a wide range of employers offered DC occupational pension schemes and GPP schemes.

A number of the medium-sized and large employers had more than one pension scheme. Where this was the case the most common situation was to have a closed DB occupational scheme alongside an open GPP or DC occupational pension scheme. DB occupational schemes had typically been closed due to concerns over pension fund deficits. A few had been frozen to further accrual.

Employers that had inherited schemes from company takeovers were occasionally running two or more open schemes (for example, two GPP schemes for two companies within the group). Most of these employers were in the process of streamlining their pension provision across the various companies within their group.

2.2.2 Contribution levels by employers in the current study

DB occupational schemes attracted higher contributions rates than DC occupational pensions and GPP pension schemes, with rates cited from 17% to 25%. In a couple of cases this was because there was a fund deficit, in others this was the ‘standard’ contribution level.

Contribution levels amongst those with DC occupational pension schemes varied amongst employers in this study from 5% to 10%, with some matching employee contributions from 4% to 10%. It was a similar picture amongst those with GPP schemes, with matched contributions of between 3% and 5% being common, as well as some employers offering slightly higher contributions of 7% to 10%.

Employers with pension provision who were contributing less than 3% were relatively rare in the quantitative survey sample and are, therefore, also small in number in this qualitative study. These employers were mainly contributing to SHPs, DC occupational schemes or to employees’ PPs. They tended to be operating in the service and manufacturing sectors.

It was not unusual for employers with a high proportion of unskilled or temporary workers to use differential contribution rates. For example, one employer offered a contribution rate of 5% for managers, but made no contribution into the Stakeholder pension on offer to the majority of the workforce.

The manner in which the contribution level was determined could be quite complex. For example, one employer was contributing 2% to a SHP scheme, but with an upper earnings level of £10,000.

Many employers in this study found it difficult to identify exact reasons for their current levels of contribution, often because these decisions had been made before the interviewee had joined the company. However, where they were able to discuss the issue, the level of contribution was a trade off between what was seen as an acceptable level of pension provision versus the cost to the employer.
2.2.3 Enrolment mechanisms

Generally, employers in this study that offered a workplace pension scheme required workers to actively opt into their scheme although there were a few instances of what they referred to as ‘automatic enrolment’.

Employers varied as to whether they operated a waiting period before employees were eligible to join their scheme. Where waiting periods were evident, they were typically between three and six months, although some respondents said they used waiting periods of a year.

2.2.4 Participation rates

Participation rates varied considerably across the sample of employers. Employers considered that there were a number of reasons for this:

• Enrolment methods. Employers in this study who said that they used some form of automatic enrolment generally had very high participation rates of 90% or more. Where the employer required employees to opt in to the workplace pension scheme, participation rates were generally lower.

• Profile of workforce. This was seen as a key factor by respondents, who felt that lower take-up was more common amongst lower paid workers and younger workers. Employers felt this was due to issues of affordability. Manufacturers and retailers tended to have a higher proportion of these types of workers and thought that their staff did not particularly value pensions and generally had more immediate demands on their money.

• Employer contribution rates. Where employer contribution rates were 3% or more, the participation rates were around 50-70%; where the employer contribution rates were lower, participation rates were generally lower at around 20-30%.

Participation levels in SHPs in particular were low, with the majority in this study reporting zero take-up. Low participation levels were perceived to reflect their employees’ inability to afford to make pension contributions due to relatively low wages and more immediate demands on their money. The lack of an employer contribution was not mentioned by employers in this context.

2.2.5 Marketing workplace pension schemes

Employers that currently provided access to a workplace pension scheme generally said that information was provided to employees about the scheme offered. Usually, this was in the form of a booklet, sometimes in combination with information available on a website. The information provided was usually supplied by the pension provider. The exceptions were the large employers with an open DB occupational pension scheme, who said that the information booklet was provided by the scheme administrator.
The medium-sized and large employers in this study commonly said that they provided a presentation of the pension scheme, in most cases run by the pension provider. This usually occurred once a year. By contrast, the small companies generally said that they did not offer presentations. Further information could be obtained by employees directly from the pension provider.
3 Awareness of the pension reforms and the decision-making process

This chapter provides an overview of respondents’ level of awareness of the pension reforms. It then moves on to look at the stage employers have reached in their planning. The chapter concludes with a discussion of employers’ likely decision-making processes, their information needs and their attitudes towards information sources.

As part of the quantitative survey, participants were given currently available information about the pension reforms. During the interviews for this research, employers were reminded of the pension reforms, using a similar verbal description. In the light of this information employers’ likely decision-making was discussed.

3.1 Level of awareness of the pension reforms

Prior to being given any background information, employers were asked at the beginning of the interview what they already knew about the pension reforms. All employers in this study had some level of awareness of the reforms. Those employers that could recall some details cited a variety of sources of information on the reforms, with the national press, trade press and financial advisers being the most frequently mentioned. A few of the smaller employers in this study mentioned the previous quantitative survey as a source of information.

Recall of the pension reforms varied according to employer size, whether they provided a pension scheme and if they had recently consulted with a relevant external adviser. Large employers in this study (with 250+ employees), and the few respondents of any size that had had recent or regular contact with accountants and financial advisers were more aware of the detail of the reforms. Small employers and non-providers in this study did not recall much of the detail but recognised that pensions were changing in 2012. There was no pattern to the recent use of
external advisers in terms of the type of employer, number of employees, industry or type of pension scheme provided.

The following provides an overview of employers’ recall of the pension reforms:

• non-providers generally had a limited recall of the pension reforms other than their proposed introduction in 2012;

• micro and small employers generally recalled that pensions were changing in 2012, that employers would be required to make a contribution and that employees would be automatically enrolled;

• medium-sized employers generally recalled a few more details of the reforms such as minimum contribution levels;

• overall, large employers had the highest level of recall and remembered more details relating to the reforms including the provision for employees to opt-out.

3.2 Current level of planning

Employers in this study had not generally started taking action in terms of formal decision-making, and many respondents said they had decided to defer such activities until 12-18 months prior to implementation. However, a minority of respondents had had informal internal discussions with colleagues and there was some limited evidence of employers taking action to prepare for the reforms. Employers who had not yet started planning were nevertheless able to think through and discuss the likely impacts of the reforms, their likely responses and the reasons for this, based on currently available information provided about the reforms14.

Those respondents that had started planning for the reforms were generally at the stage of informal internal discussions. These meetings so far had been used to provide an overview of the reforms to other senior colleagues or to talk informally about changes or checks that may have to be made in the light of the pension reforms. These employers were wary of describing such action as planning in any true sense and described themselves as more at a stage of ‘thinking about’ the reforms. While there was no discernable pattern to the employers that were engaging in such discussions in terms of industry sector or current pension provision, such discussions were more prevalent amongst the medium-sized and large employers in this study. There were some instances of these sorts of discussions among smaller employers.

There were a limited number of instances where respondents had taken further steps to prepare for the 2012 reforms.

14 The information provided to employers during this study can be found in showcards A-G in Appendix A.
These were instances of employers:

- marketing their scheme to employees more actively in order to boost their membership;

- with a pension scheme into which they did not currently contribute starting to offer a low level of contribution (1%) pre-2012 as a means of getting used to managing the costs over a number of financial years;

- currently contributing less than 3% starting to gradually increase contributions so that when 2012 arrived they would already be contributing at 3%; and

- that had taken steps to prepare for the reforms as a result of independent plans to change or introduce pension schemes. They said information about the forthcoming reforms from external advisers had influenced their thinking about contribution levels and future pension membership.

Generally, it was much more common for employers in this study to report having taken a cursory look at the reforms, only to make the decision to put them to one side for the future. Underpinning this lack of formal action was one or more of the following beliefs:

- **An assumption that consideration is unnecessary, due to a belief that their current pension provision complies.** This was common amongst current providers contributing at, or above, 3% who held the view that there was ‘little planning to be done’, based on the assumption that their pension scheme already met the minimum employer contribution and therefore required no further thought.

  ‘I think that at the moment the reason why it is not something we are really focussing on is because we have a scheme which is compliant and is offered to everyone.’

  (Medium-sized employer, GPP, medium participation, ‘other’ industry sector)

  ‘…because it didn’t seem to have any impact I dismissed it. I didn’t actually think “What does this mean for us?”…[I] just checked off, yes we do that and discounted it; it wasn’t something on my radar.’

  (Medium-sized employer, GPP, high participation, ‘other’ industry sector)

However, there was a realisation during the interviews by these employers, that more detailed planning may be required to ensure their total contribution complied, or the need to introduce automatic enrolment into their schemes where this was not currently in place.
• Scepticism that legislation will change up to 2012 or may not be implemented\(^{15}\). This view was widely held by employers across all the size bands. In some cases, this scepticism was based on past experience of frequent changes in the Government plans, with planning work and decisions becoming redundant as a result. In others, it was a general reflection of their views about the way the Government adapts legislation according to commentary by influential pressure groups and the media. Amongst these employers there were those that were doubtful about whether the reforms would be implemented should there be a change in Government; consequently, they were disinclined to plan in the near future.

Overall, most of the employers in the study considered that their immediate business needs took priority over forthcoming reforms that they were not certain would be implemented.

“We have not yet come to any views particularly on how we will respond, because we suspect between now and 2012 the Government will change its mind in a material way, so I would rather wait until we actually know.”

(Very large employer, DC occupational, high participation, ‘other’ industry sector)

• A perception that 2012 is a long way off. A small number of employers that operated with low margins felt they were unable to make concrete plans because they were uncertain about the future of their business or the likely structure of their staff in 2012. Employers generally indicated they had detected little urgency from the Government to start thinking seriously about the pension reforms and would wait to be prompted by external advisers or Government before they made formal plans.

“We may not be in business in 2012. Who can tell.”

(Micro employer, SHP, zero participation, manufacturing)

“We’ve done nothing…because 2012 is a long way away but [also] our adviser would normally prompt us.”

(Medium-sized employer, GPP, medium participation, manufacturing)

“As a board they haven’t really broached it as 2012 is a long way off. I have mentioned it when I have spoken to the board of directors and [they said] “Yes, we know it is coming in but it isn’t important at the moment, we have got 12 [sites] to open in the next five years, that is more important to us”.”

(Very large employer, DB occupational, low participation, services)

\(^{15}\) At the time of the fieldwork for this research the Pensions Bill 2007 was at the early stages of Commons proceedings.
3.3 Likely decision-making process

Although employers were able to think through their likely overall strategies and reactions relating to the reforms, it was difficult for them to give a lot of detail on their likely decision-making process.

3.3.1 Timing of decisions

On the whole, employers did not have a concrete sense about when they would start planning in earnest, although it became clear the vast majority of planning probably would not take place until around two years, or in some cases one year, before 2012.

Those employers that were concerned about potential changes in the details of the legislation generally said they would wait until they became definitive, which they presumed would be 6-12 months before implementation.

The timing of this likely process was also related to the pattern of financial budgeting adopted by the employer and the scale of the changes they may have to make:

- Medium-sized and large employers tended to draw up forward budget plans two to three years ahead and indicated they might start planning formally from 2009.
- Employers that foresaw significant expansion prior to 2012 resulting in an increase in staff also indicated they might start planning formally from 2009.
- Employers that may have to make more significant changes, such as non-contributors, employers with a low pension scheme participation rate and including some non-providers, thought that they also may need to start the planning process in 2009 or 2010.
- Medium-sized and large employers needing to consult various parties (such as trades unions) or employers with numerous subsidiaries (mainly large employers) took the same view.
- Generally, micro and small employers tended to work to an annual cycle of budgeting and expected to leave their planning until 2010 or 2011.

3.3.2 Nature of the decision-making process

The nature and complexity of the decision-making process varied between employers but was generally dependent on the perceived magnitude of the change required and the established management decision-making practices.

Employers that considered that their current pension scheme complied with the reforms, or needed little amendment, did not see the need for a long and detailed decision-making process. They thought that decisions could be made in one or two meetings with senior staff or board members where relevant, following a short period of information gathering and review.
‘I don’t think that the [decision process] will be very long at all. The trustees meetings are held quarterly and my suspicion is that it will be dealt with in one meeting.’

(Very large employer, DC occupational, high participation, ‘other’ industry sector)

Respondents who had pension provision where bigger changes were required – altering contribution levels, introducing automatic enrolment, setting up a new scheme for new employees, or setting up a new scheme for current and new employees – considered the process would take longer and be more involved. This was also true of those employers with well established management processes for decision-making and where there was a requirement to involve senior staff from numerous departments or consult unions over their decisions. These employers envisaged a process that would involve a period of information-gathering followed by a number of formal consultation and decision-making stages, culminating in formal presentations to senior decision-makers (such as board members or managing directors) to obtain sign-off on decisions.

Micro employers without pension provision generally saw it as a relatively easy decision-making process that would be made quite quickly in conjunction with their financial advisers.

3.3.3 Involvement of external advisers

The preceding quantitative survey found that 84 per cent of employers would seek advice on how to respond to the pension reforms. Similarly, employers of all sizes in this qualitative study indicated that they would take advice from a range of external advisers, such as pension brokers, financial advisers, financial consulting firms and accountants in the initial information-gathering phase. There was an expectation that these advisers would provide employers with a more tailored overview and perhaps cost calculations of the implications of the reforms, or the comparative benefits of different pension options for their company. Without any pension expertise themselves, some of the micro and small employers thought that they would rely heavily on external advisers to make recommendations for their company.

‘If it’s something like pensions I would ask my financial adviser and I’d probably get him to sort it out.’

(Medium-sized employer, SHP, zero participation, services)

‘The accountants knew everything about it; because that’s whom we would rely on to feed us the information on what we need to do. Our accountant is very good; they are red hot on tax and pension issues…they know the business and they’ve dealt with it for a long time. They would know the ins and outs of the business and what the implications to the business would be.’

(Small employer, non-provider, services)
3.4 Information needs for decision-making and information sources

Given that most employers said they would begin formal planning nearer to the implementation of the reforms, it was difficult for them to identify specific information needs beyond their immediate need for more definitive detail.

‘I think it is very difficult to establish what level of information you need without understanding the full background and the extent of the reform and what we need to put in place.’

(Large employer, GPP, high participation, ‘other’ industry sector)

In terms of gaps in current knowledge, there was a strongly held desire by most employers for more clarity on the:

• personal accounts scheme – how it will compare with other workplace pensions and how it will be administered and managed; and

• quality requirements for existing workplace pensions.

Additionally, some employers wanted to know whether it would be possible to use contract-based GPP schemes. This current research was conducted at a time when there was still uncertainty about whether automatic enrolment into GPPs would be possible. Most employers were unaware of this, but those that were hoped that issue would be resolved quickly because they strongly favoured continuing the use of their GPP schemes. This issue has subsequently been resolved and employers will be able to automatically enrol employees into qualifying GPPs under the employer duty.

The overriding priority at this stage was for clear, straightforward information outlining the details of the pension reforms, the options available to employers and, if possible, cost-based examples of those different options.

A common request was for information that was easy to assimilate, such as flow charts and case-based examples.

‘…just like basic flow chart stuff; what you need to do between now… if you have X, Y and Z, then here’s your choices…that would be helpful to have something along that sort of basis.’

(Very large employer, GPP, medium participation, ‘other’ industry sector)

There was an expectation by employers in this research that the Government, often referred to as the DWP, would disseminate key information to employers on the detail of the reforms, with a preference for both online and publication-based information channels. Employers considered they would most likely use information from DWP about the detail and processes of the reforms, as this was perceived to be the most accurate and authoritative in this respect.
Whilst employers generally considered their first port of call would be online information, there was still a request for a published booklet to be sent to them with options and cost examples that they could use as a desktop reference guide. A staffed helpline was also seen as a useful resource and would generally be used as a second port of call to help resolve any issues or to provide clarification.

Other employers suggested DWP hold seminars, to allow issues to be raised and discussed face-to-face amongst the business community.

The majority of employers did not express any strong opinions either way on the quality of information provision from the Government generally, and could not recall any good or poor examples. The few that did, however, were keen for the Government not to repeat what they saw as frequent changes in rules, such as A-Day and Self-Invested Personal Pension Schemes16 (SIPPs). Poor communication about other changes in, for example, holiday entitlements and the minimum wage, meant they had to rely on other sources, such as newspapers and articles for their information. These employers were keen for Government communications to be as early and as definitive as possible; any detail which was liable to change should be highlighted as such.

The majority of employers in this study thought they would supplement the information received from the Government with advice and information from their ‘trusted’ external advisers, trade bodies and professional associations. Trade press and professional bodies were seen as particularly valuable in providing an independent and tailored view over and above financial advisers who, a few of the micro and small employers felt, may be motivated in part by their commission payments.

16 A-Day – 6 April 2006 – saw a wide range of changes being made to pensions, including removal of the restrictions on the level of contributions that could be made to a pension scheme, the introduction of a lifetime pension fund cap of £1.5 million and the regulation of SIPPs by the Financial Services Authority (FSA).
4 Managing the likely cost of the pension reforms

Participants were asked about how they would manage any increased costs resulting from the pension reforms. This chapter focuses on the various strategies that employers thought they might adopt to manage any increase in costs and also considers the likely impact of adopting postponement periods and phasing arrangements.

4.1 How employers consider they will manage the cost of the pension reforms

Calculations that respondents had undertaken regarding the costs of the reforms were estimates based on the difference between their pension schemes’ current level of participation and that expected as a result of the pension reforms. When considering the costs of the reforms, the primary concern was the cost of the pension scheme contributions. Administrative costs were of much less concern to all employers as the costs of contributions were seen as being the major proportion of the costs incurred.

4.1.1 The strategies for managing the costs of the pension reforms

Employers in this study that contributed 3% or more and either had a very high participation rate (90% or more) or budgeted for 100% participation were not concerned about the costs of the pension reforms.

‘We budget for 100%. We will take the hit on our bottom line but it will be minimal and as I said it will be budgeted for…no real concern for us.’

(Very large employer, DC occupational, high participation, ‘other’ industry sector)
Employers with low levels of participation but paying low wages commonly expected employees to opt out of the proposed pension scheme with the consequence that the financial impact for these employers was also expected to be low. Although these employers were aware that they could not accurately predict employees’ behaviour, they thought that while automatic enrolment may initially boost take-up among their employees, a perceived lack of affordability and lack of interest in pensions may well lead later to employees leaving the scheme, particularly lower paid, casual and younger workers.

By contrast, employers with low to medium levels of participation and paying higher wages generally thought that there would be a high level of pension take-up and were, therefore, expecting an impact on their financial situation.

Those employers who expected to face additional costs mentioned a range of mechanisms for coping with these costs. Common themes were:

• increasing prices;
• absorbing the increased costs through reducing the company profits;
• lower wage settlements;
• increasing sales to compensate for the increase in pension expenditure, thereby maintaining profits; and
• reducing the current level of contributions or introducing differential contribution rates.

Combinations of these strategies were also evident.

Each of the possible strategies is discussed in detail in the following sections of the report.

Managing the costs of the pension reforms by increasing prices

Service sector firms, in particular, were concerned that the profitability of the company should not be affected. They hoped that they could pass on the additional costs of the pension reforms through an increase in prices. For example:

‘It will be a significant cost…80 per cent of our costs as a business are payroll related…we would apply a 3% increase on our payroll cost that we charge out to people, whether they are receptive to that initially I don’t know, but that is one of our biggest concerns – being able to communicate that to our clients and getting it covered…our preferred approach would be to pass the whole amount on.’

(Large employer, GPP, high participation, ‘other’ industry sector)

‘I’ve got to draw the [pension contributions] back off all my clients which means I’ve got to then ask my client for [more money], so I have to ask for another inflation rise.’

(Medium-sized employer, SHP, zero participation, services)
Managing the cost of the pension reforms by absorbing the additional costs through reduced profits

Employers in this study who thought that they could absorb the additional costs by reducing company profits were influenced by two factors. Employers that considered that the markets in which they operated would not accept an increase in prices felt that absorbing the additional costs was likely to be their best option. Employers that were neither part of a conglomerate nor listed on the stock exchange felt that there was less pressure on them to maintain their overall profitability. Where other methods of managing the costs of the pension reforms were not open to them, this would be the most likely route they would take.

‘The firm is owned by partners. I’m sure they won’t be pleased to receive a smaller dividend at the end of the year. But overall it is better to do that than reduce our competitiveness by increasing prices and we are in a business that pays high salaries and I can’t see people staying if wages are reduced or don’t increase as much as people expect.’

(Medium-sized employer, GPP, medium participation, services)

Managing the costs of the pension reforms through adjustment to wages

Some employers in this study suggested that one way of managing the costs of the pension reforms would be through adjustment to wages. This could be either by limiting wage rises or compensating for the 3% pension contribution by a corresponding reduction in wages. However, all these employers were concerned that this could make employer/employee relations more difficult and may have an effect on their ability to recruit and retain staff. In general, these employers tended to be small employers that considered that they had no scope to increase prices and were operating with small financial margins.

‘I haven’t given it a lot of thought but I think we are fairly boxed in…prices are difficult to increase, margins are quite small…we could give them a 3% pension [contribution] and reduce their pay by the equivalent amount…Not sure how well that would go down, but it is an option.’

(Small employer, GPP, medium participation, services)

‘If we are giving 3% in a pension that will hit our wage bill. What we may do is make sure that limit future wages so that we don’t hit our bottom line too much.’

(Small employer, GPP, medium participation, ‘other’ industry sector)

Firms that were highly unionised were of the opinion that wage adjustment would not be an option for them as there would be difficulties in getting trades unions to accept such an arrangement.
Managing the costs of the pension reforms through increased sales

Another potential coping mechanism to manage the costs of the pension reforms mentioned by respondents was to increase sales to compensate for the increased costs. This was particularly mentioned by service sector employers and manufacturers that did not consider that increasing prices was a viable option but were also committed to delivering a specific level of profit to a parent company.

‘We promise our parent [overseas parent company] a specific level of profit and I can’t see that being reduced…we are in a very competitive market and I don’t think there is any room to increase the price of our product range. I would imagine they [parent company] would tell us to increase sales to compensate.’

(Medium-sized employer, GPP, medium participation, manufacturing)

Managing the costs of the pension reforms through reducing contribution levels

Some employers in this study who were contributing more than 3% to their employees’ pensions considered that they might offer lower contribution levels to new members in future, to offset the costs of higher participation rates. These employers generally saw this as a last resort if they could not mitigate the costs in other ways. This strategy is explored more fully in Chapter 5.

Other methods employers have considered to manage the costs of the pension reforms

There were also some limited instances of employers considering that they might reduce staff hours or make redundancies, of employers saying they may try to find a way to employ people below the minimum wage, and of employers considering they might encourage opt-out of the pension scheme. These strategies were mentioned as possibilities only if the costs of the pension reforms proved to be too high and employers did not consider that they had the choice of offsetting costs through increased prices or reduced wages or profits. Respondents mentioning these possible strategies generally did not currently provide a workplace pension and said that they operated on very low profit margins.

4.1.2 How employers would determine the strategy for managing costs

In discussing the cost-management strategy that an employer thought they would adopt it was clear that it was not a straightforward decision, but one in which a trade-off was likely to be involved. While the strategy tended to be independent of the size of the employer and whether they were currently contributing to a pension, their decision was likely to be dependent on one or more of the following:

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Since this study was conducted, a decision was made to take legislative measures to prohibit employers from inducing workers to opt out of scheme membership.
• the industry sector and market they operated in – employers were keen to know what their competitors would do. If their competitors increased their prices then they would have the ability to do the same, because a level playing field would be established;

• the company’s profit margins – for example, one small firm with high margins was unconcerned about the cost of the pension reforms, whereas one medium-sized services firm operating with a large number of low paid workers was much more concerned because they described their margins as ‘wafer thin’. The latter employer felt that they had less room for manoeuvre;

• the perceived magnitude of the additional costs – employers that operated in markets that were very competitive and were of the opinion that they were unable to pass on the costs of the pension contributions to their customers, in whole or part, considered that the options open to them were to absorb the costs or offer lower wage increases, or a combination of the two. Ultimately, it was a balance between remaining competitive, satisfying shareholders or owners, and retaining a motivated workforce.

The following example of a multi-national company provides an illustration of this trade-off, with the employer considering that the increased costs (estimated at around £1 million) may be absorbed by the company through reduced profits, but there may also be a demand for increased sales in compensation:

‘Either they [parent company] have to be comfortable reducing targets or they’ll say well you’ve got to go and make more money to cover that, and that’s the difficulties of running a commercial organisation, you’ve got to then marry what ability you’ve got to do that over what control you’ve got…at the end of the day we do pay money back into the [non-UK] parent company…every budget has an impact on something.’

(Very large employer, GPP, medium participation, manufacturing)

As with other aspects of the discussion about pensions, employers had mainly not started any formal planning in relation to cost-management but were, nevertheless, able to think through their likely strategies.

It was also apparent that the strategies employers thought they might adopt were fluid and open to change, depending on their financial situation in 2012 and the nature of their competition.

‘It very much depends on what the market is like at the time…we definitely go through peaks and troughs. I have been here eight years and in that time we have gone through some three or four redundancy rounds and if it happens to be at a time when things are not going well and we need to cut jobs then we may have to take a more harsher strategy, but, the current performance is very good and so it wouldn’t be something that we would consider at the moment.’

(Medium-sized employer, GPP, medium participation, ‘other’ industry sector)
Those employers that could not see their workforce joining a workplace pension in any significant numbers were not convinced they would be adversely affected financially by the pension reforms. Consequently, they thought that the discussion about how they would deal with the costs of the reforms was largely academic. This was a view typically held by employers that met one or more of the following criteria:

- employed a high proportion of staff on the minimum wage;
- had a high turnover of staff; or
- employed a large number of casual staff.

‘I can’t see people wanting to make contributions themselves. The wages we pay I think they will opt out. I can’t see any more than a handful staying in…so it could be virtually no effect on us.’

(Medium-sized employer, GPP, low participation, services)

4.2 The likely impact of postponement periods

It was explained to participants that under the Government’s reforms, employers already making contributions above the 3% minimum can choose to postpone automatic enrolment for new members, to encourage these employers to continue to offer these high-contribution schemes. At the time of the interview, employers were not told the level of contribution that would be required to qualify to postpone automatic enrolment or the length of the postponement period as these will be established in the regulations.

The potential impact of the postponement period was discussed with employers in this study.

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

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

4.3 The likely impact of phasing arrangements

It was explained to participants that employers operating qualifying money purchase schemes, including the personal accounts scheme, will have the opportunity to phase in minimum contributions over a transitional period as a
means of managing the costs of the pension reforms. The minimum level of total contributions would also be phased in, meaning that members too could adjust to pension saving gradually.

Employers with high levels of participation and those that budgeted for 100% participation considered that the phasing arrangements were unnecessary for them.

For the remainder of the respondents there were mixed opinions about the phasing arrangements.

Employers with pension provision with low to medium levels of participation thought they would adopt the phasing arrangements if they were available to them.

‘If you’ve got the option to go in at 1% in year one, then yes, it’s going to be a factor, definitely.’

(Large employer, GPP, low participation, services)

Non-providers and non-contributors also considered that the proposed phasing arrangements would help them manage the costs of the pension reforms.

‘…suddenly you’ve got to pay 3% on that, that could be quite an impact…I think that [phasing] would be something really constructive because,… this year you’re [paying] just 1%, next year you’re going to have 2%…but having 3% straight away you’re going to struggle, especially for the smaller company.’

(Small employer, non-provider, ‘other’ industry sector)

However, there were some instances of employers, across all sectors and sizes – some contributing more than 3%, others less than 3% – that did not welcome the phasing arrangements.

‘I would hope that the company will say we’ve got to do it so we might as well do it properly.’

(Small employer, PP, low participation, retail)

I’m just thinking about the guy that I work with, who does it [payroll]. I can’t see him liking that…something else to think about and review next year and make sure we don’t make any mistakes because it’s quite labour intensive our payroll scheme.’

(Medium-sized employer, GPP, medium participation, manufacturing)

These employers considered that the company should get used to the increased costs with immediate effect and build the full effect of the pension reforms into their forward planning.
5 Understanding decisions about likely contribution levels following the introduction of the reforms

The focus of this chapter is to explore and understand the likely decisions of employers regarding the level of contributions they will make to employees’ pensions following the reforms. The chapter begins by considering the factors that are likely to influence future contribution rate decisions and then presents employers’ likely contribution behaviour, based on their current understanding of the pension reforms. The findings are presented according to the current level of contribution that an employer makes into a workplace pension. Employers are distinguished and referred to in the following way:

- employers contributing at 3% or more (3% or more);
- employers contributing at less than 3% (less than 3%);
- employers with an open scheme that do not contribute (non-contributors);
- employers that do not offer a pension scheme (non-providers).

5.1 Factors influencing contribution rate decisions

Employers approached the issue of their likely contribution rates and what would influence their decisions from a number of different standpoints. Their views varied widely and, overall, were dependent on four factors:

- level of commitment to being a socially responsible employer;
- the importance of a pension scheme in providing parity with the rest of the industry, thereby acting as a recruitment and retention tool;
• perceived cost of the pension reforms, based on their current level of pension contribution and participation rate; and

• their ability to deal with any additional costs in ways other than by reducing pension contribution rates.

These factors tended to combine in very individual ways, with no consistent patterns emerging across type of industry sector, employer size or the type of pension scheme in place, although some very specific responses were located in specific industries. For example:

• a very large service provider that currently had a partially closed DB occupational scheme and a GPP scheme thought that a pension scheme no longer acted as a recruitment tool and considered that in their fast moving industry employees would prefer to be given an annual bonus rather than pension contributions;

• a medium-sized manufacturer was considering increasing their current contribution rate for managerial staff to 6% and introducing a 3% contribution for factory floor workers as a means of maintaining a differential between different types of staff.

5.2 Decisions about contributions – employers contributing 3% or more

This section of the report considers the likely future contribution behaviour of employers that are currently contributing 3% or more.

Employers varied considerably in the degree of confidence they had about maintaining their contribution levels of 3% or more to their largest open pension scheme. Overall, four types of contribution behaviour were identified:

• maintain existing contribution rate for all workers;

• maintain existing contribution rate for all workers, if costs allow;

• maintain existing contribution rate for existing scheme members but reduce rate for new members; and

• may reduce contribution rate for all workers (existing and new).

These are discussed in turn.

5.2.1 Employers contributing 3% or more and likely to maintain existing contribution rate for all workers

Employers that had very high participation levels of 90% or more and/or budgeted for 100% participation considered that the cost impact of the pension reforms would be low for them and were the most likely to consider that they would maintain their current level of contributions for all workers (existing and new). They were also of the view that a pension scheme provided parity with other similar employers and thereby acted as a recruitment and retention tool.
These responses were given by employers across a range of contribution behaviour, employer size, industry sector and pension type but it was evident from what they said that these employers had a long-standing commitment to being socially responsible, with pension provision seen as an indication of this.

XYZ Services is a large employer and has a closed DB occupational scheme and an open DC occupational scheme. Employer contributions to the DC occupational scheme are 10% with a match up to a further 4%. The participation rate is high, with employees being automatically enrolled on their first day of work. The firm has a strong commitment to providing a pension scheme for reasons of social responsibility and parity with their competitors. The firm budgets for 100% participation and is not, therefore, concerned about the additional costs due to the pension reforms. They plan to maintain their current contribution levels for all employees.

‘We have to attract and retain people in the organisation. There’s an expectation that we will include pension provision…Our budget is such that we budget ten percent for everyone. If some people don’t take that up, then that’s a saving…So it’s not so much an additional cost. It’s more of not so much of a saving. So, in terms of our costing models and our management of our expenses, then we would expect all the businesses to have anticipated those costs.’

5.2.2 Employers contributing 3% or more and likely to maintain existing contribution rates for all workers, if costs allow

Employers with lower participation rates (50% or less) expected the cost impact of the pension reforms to be higher. These employers said they wanted to maintain their existing level of contribution for all workers, if the costs allowed. They also took the view that the provision of a pension scheme was part of being a socially responsible employer and that it also helped to maintain parity with the rest of their industry.

Because they had not undertaken any formal cost analysis, this group of employers were much less confident in their ability to maintain their existing level of contribution to all employees.

These employers considered that reducing the level of their contribution would be a last resort but they felt that their options for absorbing the additional costs in other ways were limited, as discussed in Chapter 4. This was particularly apparent for the manufacturing and service sectors, where their markets were highly competitive and there was pressure on financial margins. Nevertheless, if they had to make changes to the contribution rate they would attempt to honour the contribution rate for their existing scheme members and enrol new members with a 3% employer contribution.
A large employer has a closed DB occupational pension scheme and an open GPP scheme. The employer’s contribution rate to the open GPP scheme is 5%, with a medium level of participation. The current directors of the company are keen to maintain the contribution rate for all (existing and new) employees but recognise that they have a limited ability to absorb the additional costs. Depending on the financial situation in 2012, this employer considers that they may have to adjust the contribution rate, either maintaining the rate for existing members and adopting a 3% rate for new members or possibly reducing the contribution rate to 3% for all scheme members.

‘At the moment the theory is we’ll stay with 5%. Tell me what the trading position will be in 2012 and I’ll tell you if they’ll [the directors of the company] skip the 5% or look to change the scheme and reduce the employer contribution. If it is the same set of directors they are very unlikely to change that because they have a certain moral stance [about providing a pension].’

A medium-sized manufacturing company has a GPP scheme with matched contribution rates of 3% – 5% and a medium level of participation. The business is currently in good financial shape and the intention is to maintain existing contribution rates for all employees. However, were the financial situation to change they might need to reconsider their contribution policy and whether they could retain or reduce their contribution for existing members of the pension scheme.

‘It will obviously have an effect on our selling price but to be honest our employment costs are a lot less than the fluctuations in our material costs… We’re very successful at the moment…if business was tight in 2012, like it was four or five years ago…we’re booming at the moment, then it might be a very different situation. We can’t make as much as we can sell at the moment but if we’re finding that China make what we specialise in at half the cost then things will be very different.’

5.2.3 Employers contributing 3% or more and likely to maintain existing contribution rates for existing scheme members but reduce rates for new members

Employers making contributions at 3% or more but with low participation rates were primarily concerned about the cost impact of the pension reforms due to the additional contributions that would be required. These employers expected to maintain existing contribution rates for existing scheme members but offer lower rates (usually 3%) for new members. They tended to be large or very large employers with only a small proportion of employees being currently entitled to join the workplace pension scheme. In some cases, employers’ contributions
were substantially above 3%, and although some of these employers did offer all employees the opportunity to enrol, participation was low.

This group of employers were quite definitive about their likely response to the pension reforms. With overall levels of participation that were low (either because employees were not entitled to join or low take-up) their response was underpinned by lower commitment to the idea of an employer having a social responsibility for all its employees and a perception that workplace pensions were only of value in recruiting and retaining specific types of staff, usually managerial.

A large services company employs a small number of full-time managerial staff, the remainder being contract staff. The company offers a GPP for managerial staff with a contribution of 5% and a high level of participation. The contracted staff are offered a SHP scheme with no employer contribution – the scheme has no members. The company is keen to maintain the same level of differential after the pension reforms and is considering increasing the contribution to 8% for its managerial staff and providing 3% for all contract staff. However, this view is in the absence of any calculations being undertaken and they said they may have to implement a 5%/3% differential.

‘So that is my initial response, 3% for the general work force and slightly enhanced rate for the managers.’

A service organisation – a large employer – has a closed DB occupational scheme and an open DC occupational scheme into which the employer pays 12.5%. The organisation employs a wide range of staff including nurses and domestic help. They consider that a pension is only a benefit for senior and qualified staff. Their expectation is that they will retain the existing contribution rate for qualified staff, with others receiving a 3% contribution, although they are also predicting a high degree of opting-out.

‘If we are looking at nurses and managers and skilled staff here, you are competing in the market and most companies are offering a pension scheme so it could sway whether somebody joins us or goes to a competitor or another employer...Again the fact that probably 75 per cent of our staff are part-time females, a lot of those are one parent families and they are not thinking about pensions. You might get the odd one who opts in and forgets to opt out, but I have got a feeling that they would rather have the [money] in their pocket than in the pension fund.’

5.2.4 Employers contributing 3% or more and may reduce contribution rates for all workers

There were instances of employers who were unconvinced about the value of a pension scheme as a means of recruiting and retaining staff and indicated that they may reduce the contribution rate for all workers. This group of employers – who were very rare in the earlier quantitative study – were of two distinct types.
The first type of employers currently had a very low level of participation in their pension scheme. For these employers the expected costs of the pension reforms were high, with the consequence that they said they expected to contribute at the statutory minimum for all workers.

A large warehousing company has a GPP scheme with a 5% contribution for managerial staff and a lower rate for other employers. Participation is medium level for managerial staff but low for other employees. Their key concerns are the cost of any additional pension contributions.

‘We offer a scheme but take-up is quite low. I think it’s partly because our contribution isn’t that high but also that our employees have, in their eyes, better things to spend their money on...if everyone went into the pension and we had to pay in for everyone we would find it difficult financially and we could only do so at the minimum [3%].’

The second type of employers had a high level of participation in their pension scheme and expected the cost impact of the pension reforms to be modest. However, they considered that the pension reforms might provide the opportunity to reconsider the nature of their workplace pension and reduce the company contribution to the statutory minimum of 3%. Although still rare overall, this type of behaviour tended to be seen in the IT and communications industries. These employers were of the view that employees no longer worked for them for long periods of time, but moved frequently to gain experience and promotion in a fast moving industry. They believed these employees saw a bonus as being more of a recruitment and retention tool than a contributory pension scheme.

A very large hi-tech industry has been considering the value of offering a pension scheme to employees. It currently offers a DC occupational scheme which has a high participation rate but has noticed recently that younger high-salaried employers are not interested in pensions. The company is considering whether bonuses might be a more attractive alternative when recruiting employees.

‘I think it is doubtful in terms of the DC scheme whether it is for recruitment or retention or even a motivator...I think 2012 might be an opportunity to review...our business is changing, and I think as part of that change the traditional employment package may change as well...why force someone to put money into a pension, why not give them more money and then [let them] spend it on a pension.’
5.3 Decisions about contributions – employers contributing less than 3%

Employers that were making a contribution of less than 3% to a workplace pension tended to operate in sectors that employed casual and temporary staff with wages at, or near, the minimum wage level. This group of employers was rare in the earlier quantitative study\(^{18}\). The workplace pensions they offered also tended to have a number of restrictions in place as a means of keeping costs down. For example, the contribution of one company had an upper contribution limit based on a salary limit of £10,000. These firms also tended to currently budget for their actual level of participation.

The general intention among these employers was to contribute at the statutory minimum of 3%, albeit with some indicating they would contribute more if they could afford to do so.

‘My feeling is that I would probably have a hard time persuading the company to go above the suggested minimum. It would be nice and we might have those conversations but at the end of the day this is an addition to the bottom line costs of the company and one has to be realistic.’

(Small employer, PP, medium participation, retail)

Concern was expressed about how they would pay for the increase in pension costs and there was some limited evidence of firms planning to gradually increase contributions so that when 2012 arrived they were already contributing at 3%. The reasoning behind this was to get the company used to the increased expenditure.

‘We’re going to try and progress to that [3%] over time, which is where we started off with this small percentage at the moment. So we will continue to do that, and as things come out then we will start to budget.’

(Small employer, PP, high participation, ‘other’ industry sector)

5.4 Decisions about contributions – non-contributing employers

In the present study, all the employers who offered access to a pension scheme but were not contributing were operating in the retail and service sectors and included all the employer size groups. They were offering Stakeholder pension arrangements, with mainly zero participation rates. There were instances where those employers also had an open GPP scheme but this was very small, usually comprising two or three managerial staff. Their commitment to pensions was very low as it was their perception that the majority of their staff did not want

\(^{18}\) The earlier quantitative survey indicated that, at two per cent, this was a very small proportion of all employers in Great Britain.
a pension scheme and that it provided neither a recruitment nor retention tool, except for managerial staff.

These employers were generally quite sure that their contribution would be no more than 3%.

‘I think the company will pay the minimum they can get away with.’

(Small employer, SHP, zero participation, services)

There was also some evidence of employers considering phasing in their contributions in advance of the 2012 pension reforms.

‘We’d go for the minimum… Because we can’t afford any more…and bring it in over time [prior to 2012].’

(Small employer, SHP, zero participation, retail)

However, there were a few small non-contributing employers that considered that a 3% employer contribution would not be sufficient to provide a reasonable income in retirement. They thought that if they could afford it they would prefer to contribute more than 3%, although this would be dependent on their financial circumstances at the time.

‘I think that we would maybe go for 7%…10%; we would have to see. It is five years away and one or two are retiring next year and in theory I am retiring 2013…we will take a different view if we can afford it; we will put far more than that in to help the remaining lad and do what we can. It won’t be a top limit; it will be whatever we can manage to help him with.’

(Micro employer, PP, zero participation, ‘other’ industry sector)

5.5 Decisions about contributions – non-providers

Employers that did not provide a workplace pension scheme for their employees – non-providers – gave a variety of reasons for not doing so:

- a view that it was an individual’s responsibility to provide for their retirement;
- employment of casual or temporary staff – a very fluid workforce;
- a belief that a pension scheme did not act as a recruitment or retention tool;
- the perceived cost of a pension scheme; and
- employees had never asked for a pension scheme.

In terms of their likely contribution behaviour this group of employers are very similar to the non-contributing employers. They generally expected to contribute at the minimum level of 3%.

‘I suppose the minimum [contribution] I could get away with.’

(Micro employer, non-provider, services)
As with the non-contributing employers there was some evidence of a desire to phase in pension contributions over time. Some employers indicated they would like to phase in employees before 2012; others wanted more time and thought they would like to phase in after 2012.

‘You’d have to phase it anyway…Because from doing nothing to suddenly doing full on, would be bad for small business…the money has to come from somewhere, you can’t just suddenly say, “Oh that’s fine, we can just contribute loads more”. It would be insane not to phase it…We would be bound by the minimums; I would have to do whatever I was forced to do; we couldn’t at this stage think of anything over and above what was the legal requirement.’

(Micro employer, non-provider, retail)

Dependent on competitors’ behaviour and whether they could afford a higher level of contribution, some current non-providers were considering whether they might provide an enhanced contribution, particularly for highly valued members of staff. They indicated that they thought a 3% contribution to a pension scheme was too small to be of any significant value in terms of retirement provision. It should be noted, however, that employers indicated that they were making their comments in the absence of any detailed calculations being undertaken.
6 Understanding decisions about likely enrolment behaviour following the introduction of the reforms

The 2012 pension reforms provide the opportunity for employers to choose which scheme to enrol employees into – an existing (or newly set-up) qualifying workplace pension or into the new personal accounts scheme.

This chapter focuses on the enrolment choices that employers are likely to make. It is divided into two parts. The first part considers those employers that already have a pension scheme, irrespective of whether they make a contribution. Employers will be required to enrol employees into a pension scheme that satisfies certain quality requirements. This section of the report also explores employers’ views about the initial proposals for quality requirements.

The second part of this chapter is concerned with those employers that do not currently have a pension scheme – non-providers – and the decisions that they may make in relation to the type of pension scheme they would enrol employees into.

6.1 Understanding the likely enrolment behaviour of employers that currently provide a pension scheme

Employers were generally keen to automatically enrol new members into their existing scheme. This was for four reasons:
A preference for simplicity and for the smallest number of schemes as possible. Employers who already had multiple schemes were keen to use an existing open scheme as this was felt to be administratively simple;

Employers had a strong commitment to a particular type of scheme, primarily because they had found it to work well for them over the years and was cost effective;

Different levels of contribution could be incorporated into a single scheme; and

There was some resistance among employers with existing schemes to using the personal accounts scheme as they saw it as a Government sponsored pension scheme and were not convinced about its likely cost effectiveness.

The commitment to using an existing workplace pension scheme was strong across all employers, irrespective of size, industry and current contribution levels. Even where employers had decided to use differential contribution rates for different grades of staff, see Chapter 5, there was an overwhelming view that they would enrol all members into a single existing pension scheme.

However, there were some instances where employers were providing multiple schemes, for example, a GPP scheme for managerial staff and a Stakeholder pension scheme with no employer contribution for other employees. In these instances, employers were still deciding whether to adopt a one-scheme approach or whether to retain their scheme for managerial staff, discontinue the other scheme and enrol all other employees into the personal accounts scheme.

Employers with a high proportion of workers earning the minimum wage or employing casual staff thought that a two-scheme approach would be better as it made the differentiation between different types of employees more transparent. Although employers had yet to decide, they thought it most likely that they would offer a GPP scheme for managerial staff and the personal accounts scheme for the remainder.

These employers recognised that portability of a pension scheme would be important to these employees, particularly short-term workers. If the personal accounts scheme proved to be portable, most of these employers indicated that they would enrol the bulk of their employees into that.

However, in making their decision as to whether to use the personal accounts scheme or an alternative that might be available, they would prefer to use a pension scheme that provided the administratively simplest and cheapest method of providing a pension scheme to short-term workers.

It should be noted that, during the interviews, employers were told that the personal accounts scheme would be run by an independent trustee who would run the scheme autonomously at arm’s length from Government.
‘We have a GPP scheme at the moment but it is only for managers. We have a high turnover [of field staff] and so a personal account might be easier for them. I don’t know. Whatever is simple for us and makes it easier for them when they move – and they move often.’

(Large employer, GPP, high participation, services)

Contribution costs were the greater concern to employers when discussing the cost impacts of the pension reforms. However, when considering where they would enrol new members, employers said that if the cost of contributions was the same for different schemes, it would then be the administration costs that would be the deciding factor.

A medium-sized manufacturing firm has a GPP scheme with a high level of participation. The firm makes contributions of between 3% and 5% depending on staff grade. They are anticipating maintaining existing contributions for existing and new scheme members, depending on the financial climate in 2012. They are pleased with the cost and performance of their GPP scheme and do not want multiple schemes as this could be interpreted by employees as reflecting different levels of status.

‘The GPP scheme is so easy to administer now. It really is unbelievably straightforward…to have to sort out and then start administering a second scheme – I can’t believe anything could be more simple [than present scheme]. And I can’t see any reason to change if it’s not going to be simpler.’

Employers that were making a contribution to an employee’s personal pension - that is, a pension scheme the employee has organised independently for themselves through a pension provider – were generally of the opinion that they would move to the personal accounts scheme in 2012 because they considered that such an arrangement was likely to be administratively simpler, and therefore more cost effective, than their current arrangements.

‘I’m not sure yet but I would look at what is being offered and if the personal accounts were better [than current provision] then I would use them…cost would be the main issue but I would want to make sure they [employees] were still getting as good a pension.’

(Small employer, PP, high participation, services)

6.1.1 Use of GPPs

Employers with GPP schemes were well represented in the sample and included employers of all sizes and from a range of sectors such as manufacturing, services and finance.

Where evident, these schemes tended (although not exclusively) to have been introduced in the last few years to replace trust-based schemes or as a way of
streamlining multiple pension schemes that had arisen through mergers and take-overs. Some of these employers had adopted GPPs to meet their obligations in respect of Stakeholder pensions.

In general, GPP schemes were open to all employees, although take-up varied from low to high. Waiting periods for enrolment generally varied from naught to three months. In one company waiting periods varied with seniority from 0-12 months. Differences in take-up by employees reflected differences in the level of marketing of pension schemes by the employer, the perceived attractiveness of the pension scheme amongst workers and the profile of those workers, with those companies employing higher volumes of lower paid or younger workers having lower take-up.

GPP schemes were highly valued by employers because they were seen as a simple, low administrative burden and cost-effective option. The ease of administration of these GPP schemes and the fact that they give more control over funds to workers was particularly valued and attractive to both employees and employers.

‘The GPP scheme is easy to administer…and it’s the most cost-effective solution for us as the admin costs are very reasonable, especially compared to the closed DB scheme we have.’

(Medium-sized employer, GPP, high participation, ‘other’ industry sector)

Without exception, employers said they would like to keep their GPP schemes in place. However, a few employers indicated that they might introduce the personal accounts scheme for employees currently not eligible to join the GPP scheme. This referred particularly to employers that employed a large proportion of people who were earning the minimum wage, employed on a casual basis, or where they had a high turnover of employees. Such employers were usually in the service and retail sectors.

This research was conducted at a time when there was uncertainty about the future treatment of GPPs and whether they would be considered qualifying schemes, however, only one employer with a GPP scheme was aware of this.

6.1.2 Views about the quality requirements

Employers will be required to automatically enrol eligible employees who are not already active members of a qualifying pension scheme into a qualifying scheme. Employers were given definitions of the proposed quality requirements according to the type of pension scheme they had in place. Different definitions were available for DB occupational (not contracted out) schemes, DB occupational (contracted out) schemes, DC occupational schemes, and Hybrid schemes, copies of which may be found in the topic guide, see Appendix A. Employers were shown the key quality requirements for their main open pension scheme and asked to consider whether it would qualify and to comment on the details of the quality requirements. This was the first time employers had seen the proposed quality requirements so, without the opportunity to consider them at length, their reactions were generally ‘top of mind’ responses.
Employers that already provided some form of pension scheme recognised that their scheme needed to be registered as a qualifying scheme but were keen to know whether an existing qualifying scheme would need to re-qualify and whether a fee would be involved:

‘I suppose this means they [DWP] will want us to pay again [to re-register the pension scheme]? It’s always the same isn’t it? It’s not the actual cost, it’s the principle.’

(Very large employer, GPP, medium participation, ‘other’ industry sector)

After reading through the quality requirements that were specific to their main open pension scheme during the interview, employers raised concerns about the definition of qualifying earnings, see Appendix A for copies of the materials used.

Employers remarked that it was ‘unusual’ to include over-time, bonuses and particularly statutory benefits within the definition of qualifying earnings as the majority of employers in this study currently only used basic salary for their calculations.

Employers expressed three concerns in relation to definitions of qualifying earnings. First, employers commented on the potential extra cost of administration of including extra elements in the pension contribution calculation, such as over-time and bonuses. Although not payroll experts, some of the respondents, particularly from employers with large numbers of staff, felt that the added burden of checking and calculating variable amounts of qualifying earnings each month could be a significant burden.

‘I suppose my only concern is the bonuses, if that is included, because at the moment it is just on basic salary but if someone was to get a bonus but they were still within the band [qualifying earnings], so there may be something extra we would need to work out.’

(Medium-sized employer, GPP, high participation, services)

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20 Employers will largely be required to satisfy themselves that their scheme meets the quality requirements. There may be an exception for some DB occupational and Hybrid schemes where actuaries may be required if complex calculations are necessary. There is no intention to charge a registration fee.

21 Described as pensionable pay to employers during the interviews.

22 This has been a core area of debate during the passage of the Pensions Bill 2007. DWP are working with stakeholders to ensure the quality requirements are as workable as possible.

23 Pension contributions will only be made on qualifying earnings – annual earnings between approximately £5,000 and £33,500.
Others, with fewer staff and/or a better understanding of the capabilities of their payroll, were more confident this could be done in an automated way quite easily.

Second, while employers’ concerns were mitigated by the realisation that the value of minimum pension contributions would be limited to the band of qualifying earnings, some employers were concerned about the additional cost if bonuses were included. For some employers, this would mean an increase in overall contributions, irrespective of whether they were contributing below or above 3%.

‘But I wouldn’t want to do that because it would introduce the expectation in some way bonuses become pensionable, and that would have a huge knock-on effect for us.’

(Large employer, DC occupational, high participation, retail)

Third, some concerns were raised about the inclusion of statutory benefits as part of qualifying earnings. However, this may have resulted from a misunderstanding about what was meant by ‘statutory benefits’. The term ‘statutory benefits’ covers the following: statutory sick pay, statutory maternity pay, ordinary statutory paternity pay or additional statutory paternity pay and statutory adoption pay. Statutory benefits will not be managed any differently following the introduction of the employer duty than they are within any current pension arrangements. It would appear from some comments that a small number of employers interpreted the term to include means tested benefits to which an employee may be entitled, but which do not form part of qualifying earnings.

Employers indicated that they would seek advice from their pension adviser or broker regarding the qualification of their existing pension schemes and thought it necessary for the publication of the quality requirements as soon as possible so that they could check the qualification of their scheme and plan for any changes, should they be required.

6.2 Understanding the likely enrolment behaviour of employers that do not currently provide a pension scheme

Employers that made no pension provision for their employees were amongst the least knowledgeable about pension issues. The pension reforms had been explained to them in the previous quantitative survey and as part of the interviews for this research, but their awareness and knowledge was limited. Consequently, they had not given much thought to their likely enrolment behaviour.

That said, in the absence of their own workplace pension scheme, they said their preferred option would be to enrol their employees into the personal accounts scheme, although there were a couple of exceptions. The reasons for opting for the personal accounts scheme were five fold:
• A view that in order to encourage use of the personal accounts scheme it will have been designed to be straightforward and cost-effective for employers to use.

• The personal accounts scheme potentially provides considerable portability, which is particularly suitable for employers with a high turnover of employees or who employ large numbers of casual staff.

• An (incorrect) assumption that as the personal accounts scheme is being introduced by the Government that it will have some form of Government backing or guarantee.

• A perception that setting up their own pension scheme would be costly and time intensive; and

• Where employers have little time and less inclination to explore alternatives, because a workplace pension scheme is not seen as a priority requirement for the recruitment and retention of employees.

A micro sized manufacturing company did not offer any form of pension scheme. With the view that it was not an employer’s responsibility to provide for their employee’s retirement but recognising that they would have a legal duty to set up a pension scheme they thought they would opt for the personal accounts scheme.

‘It sounds like personal accounts could be the simpler and cheaper option so I would go for that…I don’t want the bother of setting up my own pension.’

The exceptions were a few small employers that were either considering setting up their own pension scheme, or were undecided about what to do.

The employers that said they might set up their own scheme were at a pre-planning stage and considered that with the provision of further information about the personal accounts scheme they may reconsider their views. However, their current position rested on four beliefs:

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24 It should be noted that, during the interviews, employers were told that the personal accounts scheme would be run by an independent trustee who would run the scheme autonomously at arm’s length from Government. Nevertheless, some employers felt that, as the Secretary of State was establishing the scheme, the Government would be involved in running it to some extent and would therefore act as a kind of guarantor.

25 In the earlier quantitative study, 15 per cent of non-providers said they would set up their own scheme and enrol employees into that.
• Setting up their own pension scheme would help to establish a company identity.

• They felt they would have greater control over their own pension scheme.

• A view that better rates of return for employees would be available through a company-specific scheme. There were a couple of instances reported in which financial advisers had told firms that they thought better rates of return would be available outside of the personal accounts scheme; and

• A view that initiatives spearheaded by the Government were likely to be inefficient and not cost effective.

‘At the moment I am erring on the side of our own scheme. I just see it as less costly than anything the government is likely to introduce and I would imagine we will have greater control over the costs and the fund management… so, not personal accounts I don’t think… helps to brand the company too.’

(Small employer, non-provider, services)

Amongst this group of non-providing employers there were those who had not made any decision about future pension provision. For them, there were three key issues that would underpin their decision-making:

• The overall cost of pension provision (contributions plus administration costs).

• Simplicity of administration; and

• Comparability of returns between the personal accounts scheme and some other customised pension arrangement.

These employers said they would not make a decision until they had seen more information about the personal accounts scheme and had consulted with their financial advisers.
7 Employers’ likely approach to providing information about pensions, encouraging participation and views about the proposed compliance regime

This chapter considers the activities employers may undertake in relation to the pension reforms. It starts by looking at employers’ likely strategies in relation to information provision and then details employers’ attitudes towards encouraging the participation of their employees. The chapter then moves on to consider employers’ views on the likely levels of take-up of a pension scheme after the reforms. The chapter ends by considering employers’ views about the proposed compliance regime.

7.1 Views about the provision of information to employees about the pension reforms

At the point of the interview, no final decisions had been taken about whether the employer, the Government or the providers of the pension scheme will provide information to employees. Employers were asked, for the sake of the interview, to assume they would take on this responsibility and were questioned about their views on this and their likely communication strategy with employees.
Employers in this research expect to play some role in communicating information about the reforms to their employees but believe the overall burden of responsibility for educating employees should lie with the Government, because it is seen as a Government initiative. They expect to see a high profile advertising and education campaign in the year leading up to the pension reforms.

Employers generally did not want the burden, in terms of time and cost, of producing information on the reforms for staff. They would be looking for ‘ready to use’ information booklets that they can send on to staff, provided by the Government or pension providers.

In terms of their communications strategy, most of the employers that currently provided a pension (both contributors and non-contributors) thought they would most likely arrange presentations or face-to-face meetings alongside the distribution of written information. The micro and small employers thought they would ask a pension adviser to make the presentations. Some of the large employers thought they may undertake the presentations themselves, in conjunction with a pension adviser, but most thought they would ask for a pension adviser to make the presentations.

Holding face-to-face meetings or seminars was seen as particularly important where staff were perceived to have little interest in, or understanding of, pensions. There was also a perception, often grounded in experience, that employees could not always be guaranteed to read the documentation sent to them and therefore meetings and seminars would ensure complete coverage and provide the opportunity to ask questions.

As mentioned previously, a few of the large employers were willing to undertake pension presentations, but on the whole employers were reluctant to take on the responsibility themselves, either due to their perceived lack of expertise or out of fear of being seen to be providing financial advice and thus being open to future litigation. There were also some concerns about the costs of running presentations and seminars (often across a number of sites) and where possible, employers said they would rely mostly on written communication or the distribution of booklets and leaflets.

Overall, there was a view that the Government should absorb the cost of running presentations and provide speakers to deliver all the information required relating to the reforms.

Current providers that expected to make very little changes to their current provision as a result of the reforms thought a written letter or briefing would suffice.

Non-providers, given their lack of experience with pensions, were particularly keen for the Government to provide information booklets they could pass on to their staff. Because of their lack of expertise around pension issues they expressed concern about their ability to answer questions from employees and thought they
would need to bring in, or at least provide access to, a financial adviser. There was some concern, however, about the cost implications this would have.

### 7.2 Employers’ views about encouraging participation

Employers were divided over whether or not they would actively encourage employees to participate in a workplace pension scheme. Their attitudes towards this were, in some respects, related to the value and importance they attached to pensions per se.

Employers offering a pension scheme that felt a sense of social responsibility to encourage employees to make provision for their retirement said they would sell the benefits of belonging to a pension scheme and positively encourage employees to think of their future. These employers tended to be long established firms and those employing mainly white collar workers. Whilst wary of being seen to offer financial advice, for fear of litigation, these employers saw it as either their company culture or in the best interests of their workers to encourage take-up of pensions by focusing on the benefits of participation. One current provider said they would even go as far as talking with those who had chosen to opt out to ensure they are aware of the implications this could have on their funding for retirement.

Employers that were less convinced of the importance of pensions and/or potentially faced higher costs as a result of the pension reforms felt they would generally adopt a ‘hands off’ approach and would neither encourage nor discourage their staff either way. These employers tended to be located in the service and retail sectors with high levels of staff earning low wages and, in some cases, a high turnover of staff. There was a sense that they would do the minimum required in terms of informing their staff of the details, but would not be actively ‘selling’ the pension to employees. This attitude was common amongst non-contributors and non-providers within the study and was sometimes underpinned by a view that it is primarily the individuals’ rather than the employers’ shared responsibility to ensure they make provision for their future.

As discussed in Chapter 4, even employers that were concerned about the costs of the reforms, would on the whole draw the line at encouraging opt-out, as they were ethically opposed to such a measure.

‘We would not encourage people to opt out; it would fly in the face of that which the Directors believe is appropriate.’

(Large employer, GPP, medium participation, ‘other’ industry sector)
However, there were a couple of employers that said encouraging opt-out may be an option, even though they expected that this would be illegal. One employer had not realised prior to the interview that employees had the option of opting out of the scheme. On recognising this, they openly admitted that they may offer some sort of incentive to employees to opt out as a way of managing their costs.

‘I think we would be suggesting that they might wish to [opt-out]... in a less formal way...[by offering] them some incentive to opt out. If the potential is to save 3% then there may be an incentive just to use some of that cost that we would have incurred to encourage people to opt out. I hadn’t realised that it [opt-out] was an option.’

(Medium-sized employer, GPP, high participation, ‘other’ industry sector).

Expecting that encouraging opt-out would be illegal, these employers indicated that they would not do this in an overt way for fear of the potential legal implications. For example, one employer said that they would not go as far as suggesting employees opt-out, but would present the facts about the reforms and the company’s financial situation in a way that would make it clear that contributing to a pension would not be sustainable in the longer term.

‘We might want to influence them towards the opt-out. If you’re given the facts, given the options then you make your own choices...it’s often an open and honest approach from what position we’re in at the time.’

(Small employer, non-provider, retail)

7.3 Employers’ views about likely opt-out levels

Employers’ views about the impact of the pension reforms and in particular of automatic enrolment on take-up levels varied. Amongst employers with lower take-up levels, there was a prevalent view that automatic enrolment may well boost take-up at least initially, due to a perceived likely inertia on the behalf of workers to opt out. Current non-contributors and non-providers also acknowledged that having a compulsory employer contribution may well increase take-up as workers felt they would otherwise miss out on an additional benefit.

However, employers were not always convinced this would be sufficient to stop some types of workers opting out in the longer term. They felt a lack of affordability and lack of interest in pensions may well lead to high opt-out levels amongst lower paid, casual and also younger workers, as generally it was these workers that were failing to opt in to their pension schemes now.

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26 Since this study was conducted, a decision was made to take legislative measures to prohibit employers from inducing workers to opt out of scheme membership.
‘Given the option I imagine in our [business] if they see that they can avoid a cost then they will opt out. They will not perceive this as a benefit today and for that reason they will opt out. Bearing in mind we have a scheme [with no employer contribution] and nobody has taken it out, I really don’t see why there would be a change… What will happen is, they’re all going to get their payslip at the end of the month and think…I could have done something with that 50 quid or whatever it was.’

(Medium-sized employer, SHP, zero participation, ‘other’ industry sector)

It was acknowledged, however, that final take-up levels may well depend on how effective the Government and employers are in selling the importance of pensions to employees. It was not easy therefore, for employers to predict the likely proportion of workers that would opt out or stay in.

Employers that currently offered a pension scheme, but were making no contribution, were experiencing very low levels of participation. Even though under the pension reforms there would be an employer contribution of 3%, those with a high proportion of lower paid, temporary and younger workers considered that the number of employees opting out could still be as high as 70-90%.

‘What I would want the Government to do is to go out there and talk to the people out there… to make it a success, they have got to promote it. I said it before and I will say it again, [otherwise] I think probably 90% of our people will opt out because of their circumstances.’

(Large employer, DB occupational, low participation, services)

There were also a very small number of employers that operated a pension scheme with an employer contribution that was between 0.5% and 3% and a small employee contribution (for example 0.9% to 1.4%). In these instances employee contribution levels would also need to rise in order to comply with the reforms. Employers thought that take-up may reduce after the reforms, especially amongst younger workers who were perceived to only currently join because employee contributions were so low.

7.4 Employers’ views about compliance

This section considers employers’ views about elements of the proposed compliance regime. The proposed regime includes a range of features, including data-matching 27, reminder letters, employee whistle blowing and penalties. Each of these will be discussed in turn ahead.

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27 Data matching involves comparing the extent to which computer records held by one body match against other records held by the same or other body.
7.4.1 Views about compliance

During the interview, employers were asked about their views on elements of the proposed compliance regime (presented as card G in the topic guide – see Appendix A). This was discussed within very broad terms as, at the time of the interview, details of how the specific elements of the compliance regime would be applied had not been finalised.

Overall, employers did not have any major issues with the suggested compliance activities, as long as they did not become too heavy handed and burdensome. In general, the detail of the regime was ‘as expected’ and seen to be similar to other regimes in place.

Most employers took the view that the most effective way of ensuring compliance would be to make the process of deducting the contributions as easy as possible and suggested that one way of doing this would be to add employer pension contribution deductions onto Pay As You Earn (PAYE) or National Insurance deductions.

Employers were also generally of the opinion that the key to ensuring compliance was an effective and wide reaching communication of the rules. They would look to the Government or a compliance body to provide timely advice, through written documents, seminars or advice lines.

7.4.2 Employers’ views about data matching

Employers were told that the proposed compliance regime will involve the use of data matching to identify where employers are failing to meet their requirements. Where an employer is identified as failing to meet their requirements, they will be sent reminder letters. If employers continue to fail to meet their requirements there will be penalties, and the possibility of court action.

Whilst data matching was seen to be a useful approach, there was some concern about the Government’s ability to handle the data and execute data matching accurately. On the whole though, employers reserved judgement on this element until more details of the method were made available.

7.4.3 Employers’ views about reminder letters

Employers appreciated the proposal to issue reminder letters before penalties were applied and were keen that a compliance body gave employers sufficient ‘bedding in’ time, before applying harder measures. It was considered that one of the key reasons for non-compliance would be a lack of understanding of the employer duties. Employers were keen therefore, for help and advice to be offered once reminder letters were sent out, to give employers the opportunity to rectify problems before having to pay penalties. There was also a suggestion that smaller companies, given their likely lack of expertise, should be given longer grace periods between reminders and penalties than larger companies.
'I think the negativity really is if they do it the same way as the Inland Revenue, give a penalty immediately and not give the employer the chance. When the employers were asked to file their yearly inland Revenue returns on line for the first time, they started dishing out fines left, right and centre for people who were late or had done it wrong. I think they have to give a little leeway for the first twelve months...they need to help the employers... Encourage not demand I think. You have got to encourage people.'

(Large employer, DB occupational, low participation, services)

‘I think most people when they don’t comply [with] some rules it’s because they think its complex, not they don’t want to comply, that’s my opinion.’

(Small employer, SHP, zero participation, ‘other’ industry sector)

‘...obviously you need to provide information where there is non-compliance, give an explanation why that is the case. And give clear indications of how to rectify, so again there needs to be clarity about it.’

(Small employer, SHP, zero participation, ‘other’ industry sector)

7.4.4 Employers’ views about penalties

Penalties were seen as necessary in clear cases of non-compliance. Although no specific penalty process was discussed, employers were keen that the overall penalty should be appropriate to the size of company and related to the cost the employer would have had to meet if they had complied.

7.4.5 Employers’ views about employee whistle-blowing

Employers were told that workers will be able to whistle blow if their employers are failing to meet their requirements. Such cases will be investigated with penalties following, as appropriate.

There were no reported issues with allowing employees the option of whistle-blowing, although a handful were sceptical about how often employees would use this, due to fear of repercussions.
Appendix A

Topic guide

Understanding employer behaviour in response to the workplace pension reform

Aim: To understand employers’ behaviour in response to personal accounts reform

Objectives – to explore:

- The decisions that employers make regarding membership of, and levels of contributions to, personal accounts or qualifying workplace pension schemes; what is driving these decisions and when will the decisions be made

- The process by which employers make these decisions (including who is involved in the decision-making and the basis on which these decisions are made), and

- The activities that employers are likely to undertake with workers in relation to membership of personal accounts or other qualifying workplace pension schemes.

1. Background

- About BMRB, independent research agency

- About the project
  - To explore their response to the personal accounts pension reforms and to understand the process they will undergo to come to a decision about their likely course of action.
  - Funded by the Department for Work and Pensions
  - This is one of a number of interviews being conducted with employers around the country
• Duration of interview (1 hour)

• Confidentiality
  - Anonymity
  - None of the quotations used are attributed to anyone by name or business name
  - Findings are reported in such a way that no respondents or businesses can be identified
  - Recording: recordings are only available to the BMRB research team

2. Background information about the employer and current pension provision

Note: Employer will already have been asked this information in the quantitative interview. Use depth confirmation and prompts below to quickly check details and accuracy and fill in any blanks.

• Explore general characteristics of the employer
  - Nature of industry
  - Region
  - Size (number of employees)
  - Proportion of staff earning above £5,000 a year
  - Number of PAYE schemes (probe on why they have more than 1 PAYE scheme, if applicable)

• Open pension schemes available (cover briefly)
  - Type of pension scheme i.e. DB, DC occupational, hybrid, GPP
  - Number of pension schemes.
    - If more than one PAYE scheme, probe whether offer consistent or different pensions for each PAYE scheme in the organisation. If different, check how many pensions per PAYE scheme.
  - Explore eligibility requirements for each scheme i.e. length of service, type of staff etc
  - Determine current level of take-up/membership levels for each scheme
  - What proportion of take-up do they budget for?
  - Determine current level of employer and employee contribution and why it is at that level

• Current provision of pension schemes

Note: Cover briefly for context only
• Establish key reasons for/for not providing workplace pension scheme
  Prompt if necessary where appropriate
  - recruitment and retention (prompt - is it promoted as a benefit for recruitment?
    How important is it as a recruitment/retention tool in comparison with other
    benefits? What other benefits are used for this?)
  - ensuring industry comparability
  - social responsibility, i.e. ensuring employee’s best interests
  - in order to gain tax relief
  - level of administration
  - costs
  - nature of staff prevents i.e. temporary, high turnover
  - other

• Establish likely reason for level of take-up
  - How do they offer pension scheme (automatic-enrolment, provide information
    pack, etc.)
  - Do they encourage take-up and how?
  - How long do they give employees to opt out or not enrol

3. Awareness of personal account pension reforms
• Awareness of personal accounts and pension reforms (spontaneous first, then
  SHOW CARD A)
  - what features aware of (prompt for awareness of: automatic-enrolment;
    minimum employer cont; ability to qualify existing schemes; need to register
    existing scheme)
  - what information received
  - where has information been received from (prompt for external sources i.e.
    IFAs and accountants, lawyers, etc.)
The government has proposed that, from 2012, employers will be required to enrol all eligible jobholders into a qualifying workplace pension arrangement. Eligible jobholders means all individuals working or predominantly working in the UK (as well as those who are employed and paid in the UK but physically perform the majority of their employment tasks overseas), aged between 22 and State Pension age, earning more than around £5,000 a year and not already participating in a workplace pension arrangement with at least a 3% contribution from their employer.

Government will also establish a new qualifying scheme referred to as personal accounts, which will be an option for all employers. Personal accounts are being introduced to provide a simple and low-cost savings vehicle for individuals not currently well served by the pensions industry.

So from 2012, all employers will be required to enrol all eligible jobholders into either an employer-sponsored pension scheme or into a new personal account scheme. They will also be required to contribute at least 3% of workers earnings between about £5,000 and £33,500. Workers will need to contribute at least enough to take the total contribution to 8% on the same band of earnings, although some of this will be offset by normal tax relief on pension savings. Workers can decide to opt out if they wish.

Employers with a pension scheme providing contributions or benefits that meet the minimum criteria, will have a choice over whether to enrol workers into their existing qualifying scheme, into a new qualifying scheme, including personal accounts, or by choice, into a combination of such schemes.

4. Information needs and the decision-making framework
• Has the employer given any thought so far as to how they will deal with the introduction of the personal accounts reforms?

Note to researcher: If respondent has started to plan for the reforms and/or made firm decisions about action they have taken follow section 5a.

If respondent has not considered the issues so far, follow section 5b. Explain that for the purpose of the interview, you would like them to imagine they are at the stage of thinking about the implementation of the reforms. You will ask them to think through the process they would follow and factors to decide upon a course of action.

5. (A) For respondents who have started to make plans and/or made firm decisions
• When did they start to plan how to deal with the pension reforms? Probe:
  - What/Who prompted this? (probe for external sources)
  - What stage have they got to in the planning process?
• Explore how the decision-making process is being organised. Probe:
  - Have they adopted a formal process or is it more informal?
  - What does that process consists of, i.e. stages?
  - Who is involved within the company and externally and what role do they/will they play, e.g. information gatherer, consultant?
  - If external advisers are/will be used, who is used, who approached whom, who sets the agenda? How much influence do/will external advisers have?
  - How long do they envisage the process will take?
  - Where are they within that process; what future steps will they take and when?
  - Who will make the final decision, when are they likely to do so and why?
• Explore what information needs have they had/will they have to make a decision. Probe:
  - What kind of information have they needed/will need to make their decision?
  - Are there any gaps in information they need?
  - Who/what sources have they used/will they use to gather this information?
  - When receiving information on pension reforms which sources have they valued over others and why?
  - Who do they think should provide information and what kind of information should they offer?
  - How would they like to receive information on personal accounts and/or pension reforms in the future? (e.g. online, information packs, letters, telephone helpline etc.) Mix of channels? And which option is most preferred? Would they expect personalised info?
  - Have they come across any good and bad examples of information on personal accounts/pension reforms? Or more general government information on reforms affecting employers? What makes it good or bad?

5 (B) Respondents who have yet to make plans
• Have they given any thought to when they might start planning (i.e. have they planned to start planning at some point in the future). Probe:
  - What haven’t they started planning or doing? Why haven’t they started planning?

N.B. Ask the respondent to imagine they are at the point when you begin to think about the reforms.
• Explore how the decision-making process is being organised. Probe:
  - Would they follow a formal process or would it be more informal?
  - If formal, what would that process consists of, i.e. stages?
  - Who would be involved within the company and externally and what role do will they play e.g. information gatherer, consultant etc.?
  - Would they expect to initiate discussion with external advisers or would they expect advisers to contact them? If external advisers are/will be used, who would be used who would set the agenda? How much influence will external advisers have?
  - How long do they envisage the process will take?
  - Who will make the final decision, when are they likely to do so and why?

• Explore what information needs think they may have to help them make a decision. Probe:
  - What kind of information would they need to make their decision? Who/what sources would they use to gather this information? And why?
  - Who do they expect to provide information on the personal accounts and pension reform and what information should they provide. And why?
  - When receiving information on pension reforms who/what information sources do they value/listen to? And why?
  - How would employers like to receive information on personal accounts? (e.g. on-line, information pack, letter, telephone, Helpline etc.) – mix of methods? what channels do they expect to be available? Which is most preferred? Would they expect personalised info?
  - Have they come across any good and bad examples of information on personal accounts/pension reforms? Or more general government information on reforms affecting employers?

6. Decision-making about pension reforms

Note to researcher – Explain that you would like to understand how employers will make decisions about their pension provision in light of the reforms and the factors they will take into account when doing this. Some respondents may be further ahead in their decisions about this than others. You will need to make use of the key choices and characteristics summary to ground the discussion in the employers’ personal situation.
SHOW CARD B CHOICES FOR EMPLOYERS AND KEY FEATURES

From 2012, employers will be required to enrol all eligible jobholders into a DC pension scheme making a 3% minimum contribution, or enrol jobholders into a qualifying DB or hybrid scheme.

Employers who do not currently offer a pension will have a choice to
• enrol their workers into the personal account scheme
• open a new qualifying workplace scheme for their workers
• open a new qualifying scheme and use the personal account scheme.

Employers who have a workplace scheme, but do not currently meet the 3% employer contribution limit (or the test for qualifying DB schemes) will have the choice of:
• increasing the contributions on the workplace scheme and qualifying that scheme
• enrol workers in the personal account scheme
• enrol some workers in the personal account scheme and some in a qualifying workplace scheme.

Employers with a pension scheme providing contributions at or above the minimum level (or that meet the DB test), will have a choice to:
• enrol all workers into their existing scheme after qualification
• enrol some workers into the new personal account scheme and enrol some workers in their current workplace scheme
• enrol some workers in their current workplace scheme and open a new workplace scheme for other workers
• close their current scheme and enrol all workers into the personal account scheme.

Key points to note:

**Qualification**: Employers will need to ensure that any current workplace scheme they wish to continue with qualifies, by undergoing a qualifying test. There will be tests for defined contribution, defined benefit and hybrid scheme. The tests have been designed to be as simple and straightforward as possible.

**Waiting Period**: The government proposes that there will not be a waiting period for automatic enrolment. There will be an exception for employers with existing schemes that provide more generous contributions (of a specified level) than the minimum qualifying 3% employer contribution.
Phasing: It is intended that employers operating qualifying DC schemes, including personal accounts, will be able to phase in contributions over a three year period. One per cent in year one, 2% in year two and reaching 3% in year three. Individuals contributions will also be phased in over the same period: 1% in year 1, 3% in year 2 and 5% in year 3.

Employers operating qualifying Defined Benefit schemes and Hybrid schemes will phase in automatic enrolment. The intention would be for employers to automatically enrol all new and previously ineligible workers at the start of the phasing period and to have automatically enrolled all previously eligible non-joiners by the end of the period.

Transfers: A worker, new or existing cannot transfer a workplace pension IN to a personal account, nor can a worker transfer a personal account OUT to a workplace pension. Personal account funds will be fully portable for individuals moving between employers within the personal accounts scheme. However there will be a number of specific circumstances, where we will allow individuals to move funds into and out of Personal Accounts.

Contribution limits: Workers will only be allowed to personally contribute up to a maximum of £3,600 per year into the personal account. The £3,600 limit is based on 2005 earning levels and will be up rated from that point in line with earnings, to 2012 and beyond. The contribution cap will be set at £10,000 in year 1 to encourage saving.

- Explore what specific implications the personal account reforms will have for their organisation? Probe:
  - What proportion of current staff will they now need to provide pension for?

Go through the choices available to the particular employer, depending on their situation using SHOW CARD B.

- Explore how they will decide/ have decided what schemes to offer, i.e. a qualifying workplace scheme and/or personal accounts. What factors will they/ have they take(n) into account?

Probe:
  - Perceived simplicity of set up/administration
  - Perceived costs – explore relative influence of admin costs and financial costs in decision
  - Other.

FOR NON–PROVIDERS WHO PLAN TO SET UP OWN SCHEME–

- Explore their reasons for this?
  - What are the benefits of this? Barriers to using the personal account scheme?
ASK ALL

- Explore what employers will do about the level of contributions they will make – and reasons why
  - What will employers do in relation to:
    - current workers in a pension scheme (if applicable)
    - current workers not in a pension scheme
    - new workers
  - What factors will they take into account in making their decision? (probe using factors below where appropriate)

- Gain spontaneous response first and then probe for the influence of following factors on their decisions where appropriate:
  - Costs – of contributions and administration
  - Potential impact on recruitment and retention
  - Ensuring industry comparability
  - Ensuring workers best interests
  - Ensuring workers parity
  - Competing with employers for staff
  - Other

- Explore which of the above is/are the most important factors influencing their decision and reasons why?

- Explore how this compares with their survey response
  - Explore any differences and reasons why

- Explore where employers will enrol workers. Probe:
  - What will employers do in relation to:
    - current worker in existing pension scheme (if applicable)
    - current workers not in a pension scheme
    - new workers
  - What factors will they take into account in making their decision? (probe using factors below where appropriate)

- Gain spontaneous response first and then probe for the influence of following factors on their decisions where appropriate:
  - Costs – contributions and administration
  - Potential impact on recruitment and retention
  - Turnover of staff
- Current eligibility
- Current take-up
- Ensuring industry comparability
- Ensuring workers best interests
- Ensuring worker parity
- Competing with employers for staff
- Other

• Explore how this compares with their survey response
  - Explore any differences and reasons why

Note to researcher: SHOW CARD B again to ensure employer understands the proposals about phasing and waiting periods.

• In what way do the governments’ proposals on phasing influence their decisions about the schemes to run and the level of contributions to make – and reasons why
  - On where they would enrol workers
  - On level of contributions

• How would the introduction of a waiting period to qualifying workplace accounts (contributing above 3%) influence their decisions – and reasons why
  - On where they would enrol workers
  - On level of contributions

7. The qualifying test for existing occupational schemes

NB For employers with current occupational schemes contributing above 3% only.

READ OUT - Employers will be expected to satisfy themselves that their scheme rules meets the qualifying test on an ongoing basis. Employers using a scheme that does not meet the test will fail the employer duty and may face penalties.

• Check what type of scheme they currently operate and show card as applicable

  DB NOT contracted out – Card C
  DB contracted out – Card D
  DC occupational scheme – Card E
  Hybrid scheme – Card F
SHOW CARD C – DB NOT CONTRACTED OUT

The Government has proposed that existing employer DB (not contracted-out) scheme can be a qualifying scheme provided the employer is able to certify the scheme using the following test.

The scheme must:

• allow membership without requiring active participation of individual members (e.g. on fund choice decisions)
• be registered for tax relief under the Finance Act 2004
• provide a pension for life beginning at State pension age
• have a minimum accrual rate of at least 1/120th of average pensionable pay which includes basic earnings, payments (for commission, special skills or work patterns), bonuses, overtime and statutory benefits, within a specified earnings band (approx, £5,000 - £33,500) which will be up-rated annually in line with earnings.

SHOW CARD D – DB CONTRACTED OUT

The Government has proposed that existing employer occupational pension schemes can be exempt from the personal accounts regime provided the employer is able to certify the scheme using the following test.

The scheme must:

• allow membership without requiring active participation of individual members (e.g. on fund choice decisions)
• be registered for tax relief under the Finance Act 2004.

The scheme must comply with:

• the requirements of the Reference Scheme Test in the Pensions Act 1993 (section 9 2(B) rights).

SHOW CARD E - DC OCCUPATIONAL SCHEME

The Government has proposed that existing employer occupational pension schemes can be exempt from the personal accounts regime provided the employer is able to certify the scheme using the following test.

The scheme must:

• allow membership without requiring active participation of individual members (e.g. on fund choice decisions)
• be registered for tax relief under the Finance Act 2004. For each worker
participating under the reform, the employer must:

- provide for contributions that are of equal or better value than 8% of the worker’s pensionable pay, which includes basic earnings, payments (for commission, special skills or work patterns), bonuses, overtime and statutory benefits, within a specified earnings band (approx, £5,000 – £33,500) which will be up-rated annually in line with earnings
- pay at least 3% of the minimum overall contribution.

SHOW CARD F – HYBRID SCHEME

The Government has proposed that existing employer occupational pension schemes can be exempt from the personal accounts regime provided the employer is able to certify the scheme.

To qualify each hybrid scheme must:

- allow membership without requiring active participation of individual members (e.g. on fund choice decisions)
- be registered for tax relief under the Finance Act 2004.

For hybrid schemes, employers will be given statutory guidance to direct their choice of the most appropriate combination of tests from those for defined contribution or defined benefit schemes.

For a scheme with DB (contracted-out) elements, the scheme must:

- the requirements of the Reference Scheme Test in the Pensions Act 1993 (section 9 2(B) rights).

For a scheme with DB (not contracted-out) elements, the scheme must:

- provide a pension for life beginning at State pension age
- have a minimum accrual rate of at least 1/120th of average pensionable pay which includes basic earnings, payments (for commission, special skills or work patterns), bonuses, overtime and statutory benefits, within a specified earnings band (approx, £5,000 – £33,500) which will be up-rated annually in line with earnings.

For a scheme with DC elements, the sponsoring employer must:

- provide for contributions that are of equal or better value than 8% of the worker’s pensionable pay, which includes basic earnings, payments (for commission, special skills or work patterns), bonuses, overtime and statutory benefits, within a specified earnings band (approx, £5,000 – £33,500) which will be up-rated annually in line with earnings
- pay at least 3% of the minimum overall contribution
- allow membership without requiring active participation of individual members (e.g. on fund choice decisions).
• Check whether employer can see immediately whether their scheme would pass the test?
• If changes to the scheme would be needed, what would these be? Probe:
  - How expensive would it be to change them?
  - What would the process be?
  - Do they foresee any difficulties in making the changes?
  - Would they seek advice to satisfy themselves that their scheme had passed the tests? From whom and why?

READ OUT – The intention is to provide technical guidance to assist employers in applying the relevant test for existing schemes.
• Explore what they feel should be included in that guidance? When should it be available
• Explore whether the qualifying test will have an impact on whether they will continue with their existing scheme? If yes, what is likely to change?

8. Managing the costs of the reforms
Note to researcher: Summarise, the respondents’ plans for contribution levels and enrolment from the discussion above to help them focus upon the likely costs of their decisions, ie you say you will contribute X and you have X proportion not currently in the scheme....
• Explore the extent of the financial and administrative impact of the reforms for the respondent
  o How would you calculate these?
  o How have they worked these out (explore whether guesses or a more formal estimate)
• How will respondents manage the additional costs of pension contributions in light of the reforms?
  Gain spontaneous responses first before discussing potential ways identified by other employers (NB could be a combination of the following):
  - Making adjustments to wages and or benefits
  - Absorbing increase as part of overheads
  - Increasing prices
  - Levelling down their contributions
  - Encouraging workers to opt out
  - Other
• Explore how this compares with their survey response
  Explore any differences and reasons why
Note to researcher – If employer mentions encouraging opt-out at a possible strategy, ensure explored in depth using questions below. Encouraging opt-out or opt-in should also be explored with all employers in the next section.

• Identify why they have chosen their strategy/strategies. What are the benefits of adopting their approach over others?
  - How realistic is this approach
  - How have they arrived at this approach (explore whether an instant reaction or more formally thought through)

• Explore how will they implement their chosen strategies in practice and identify the issues they may face in taking their approach i.e. issues with workers/shareholders/trade unions/consumers etc.

Note to researcher: Remind respondent on the proposed phasing in of costs and waiting period rules (SHOW CARD B again) to allow employers to adjust to them

• Explore whether phasing of contributions (on workplace schemes) would influence how they deal with the added costs.

• Explore whether waiting periods for workplace schemes would influence how they deal with the added costs.

9. Activities that employers will undertake with workers

No final decisions have been taken about whether the employer or the scheme will provide information to the workers. Assuming that the employer did take on this responsibility:

• How would they provide and present information to their employees on personal accounts and qualifying workplace schemes. Probe:
  - Who do they think workers will expect to receive information from?
  - What kind of information do they think workers will want?
  - Will they present their reasons for their chosen approach/contribution levels?
  - What medium will they use, e.g. internal/external advisers, meetings/documents.
  - What resources might help them?

• Do they think employees will opt-out of the scheme – reasons why
  - Which workers?
  - Likely proportion of workers
    - How have they worked this out

• Explore what employers will do in relation to workers participation in the pension scheme.
Probe:
- Will they make any suggestions about what workers should do, i.e. to participate or not and why?
- How will they go about this; what reasons will they use?
- How do they think this information will be received? Will it be acted upon?

SHOW CARD G

Compliance regime: The compliance strategy involves the use of data matching to identify where employers are failing to meet their requirements. Where an employer is identified as failing to meet their requirements, they will be sent reminder letters. If employers continue to fail to meet their requirements there will be penalties, and the possibility of court action.

In addition to the data matching, workers will be able to whistle blow if their employers are failing to meet their requirements. Such cases will be investigated with penalties, etc following as appropriate.

- Explore views on the proposed compliance strategy, positive and negative.
- Explore the support employers will need and steps they will take to ensure compliance.
  - What action would they take within their organisation to ensure compliance?
  - Would they seek advice from any external agencies on how to comply and if so why?
  - How should the government encourage compliance from employers in general? (Gain spontaneous response first then probe attitudes to)
    - Warnings and penalties
    - Confidential employee ‘whistle-blowing’ helplines
    - Limited risk based inspection
    - Other suggestions

10. Finally….
- Considering their views/plans so far in relation to how they consider they will deal with personal accounts how likely do they think it is that these views/plans will stay the same
  - If anything is likely to change
    - What is likely to change
    - Reasons for likely change

THANK AND CLOSE
Appendix B  
Achieved profile by employers’ size across key variables

Table B.1  Current pension provision and likely contribution behaviour by size of organisation

<table>
<thead>
<tr>
<th>Size</th>
<th>Micro (1-4)</th>
<th>Small (5-49)</th>
<th>Medium (50-249)</th>
<th>Large (250+)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current pension provision</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-providers</td>
<td>10</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Non-contributors</td>
<td>0</td>
<td>9</td>
<td>7</td>
<td>2</td>
<td>18</td>
</tr>
<tr>
<td>Contributing less than 3%</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Contributing 3% or more</td>
<td>4</td>
<td>4</td>
<td>10</td>
<td>12</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>17</td>
<td>18</td>
<td>14</td>
<td>64</td>
</tr>
</tbody>
</table>

Likely contribution behaviour (from survey)

<table>
<thead>
<tr>
<th></th>
<th>Micro (1-4)</th>
<th>Small (5-49)</th>
<th>Medium (50-249)</th>
<th>Large (250+)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase contribution rate to minimum 3%</td>
<td>6</td>
<td>12</td>
<td>7</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>Increase contribution rate to more than 3%</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
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<tr>
<td>Maintain contribution rate for all workers</td>
<td>3</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td>Maintain contribution rate for some/reduce for others</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>6</td>
<td>12</td>
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<tr>
<td>Reduce contribution rate for all workers</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Don’t know</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>14</td>
<td>17</td>
<td>18</td>
<td>15</td>
<td>64</td>
</tr>
</tbody>
</table>
### Table B.2 Profile of employers

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of employers</td>
<td>64</td>
</tr>
<tr>
<td>Employer Size (no of employees)</td>
<td></td>
</tr>
<tr>
<td>1-4</td>
<td>14</td>
</tr>
<tr>
<td>5-49</td>
<td>17</td>
</tr>
<tr>
<td>50-249</td>
<td>18</td>
</tr>
<tr>
<td>250+</td>
<td>15</td>
</tr>
<tr>
<td><strong>Current pension provision</strong></td>
<td></td>
</tr>
<tr>
<td>Non-providers</td>
<td>12</td>
</tr>
<tr>
<td>Non-contributors</td>
<td>18</td>
</tr>
<tr>
<td>Contributors below 3%</td>
<td>4</td>
</tr>
<tr>
<td>Contributors at or above 3%</td>
<td>30</td>
</tr>
<tr>
<td><strong>Likely contribution behaviour</strong> (from survey)</td>
<td></td>
</tr>
<tr>
<td>Increase rate to minimum 3%</td>
<td>28</td>
</tr>
<tr>
<td>Increase rate to more than 3%</td>
<td>2</td>
</tr>
<tr>
<td>Maintain rate for all workers</td>
<td>15</td>
</tr>
<tr>
<td>Maintain rate for some/reduce for others</td>
<td>12</td>
</tr>
<tr>
<td>Reduce for all workers</td>
<td>2</td>
</tr>
<tr>
<td>Don’t know</td>
<td>5</td>
</tr>
<tr>
<td><strong>Likely enrolment behaviour</strong> (from survey)</td>
<td></td>
</tr>
<tr>
<td>Use existing scheme for all workers</td>
<td>21</td>
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<tr>
<td>Set up own scheme for all workers</td>
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</tr>
<tr>
<td>Use personal accounts for all workers</td>
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</tr>
<tr>
<td>Use a combination of own scheme and personal accounts for workers</td>
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</tr>
<tr>
<td>Don’t know</td>
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<tr>
<td><strong>Main Likely coping behaviour</strong> (from survey)</td>
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<tr>
<td>Absorb in overheads</td>
<td>24</td>
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<tr>
<td>Absorb through wages</td>
<td>15</td>
</tr>
<tr>
<td>Increase prices</td>
<td>7</td>
</tr>
<tr>
<td>Encourage opt-out</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
</tr>
<tr>
<td>Don’t know</td>
<td>4</td>
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Continued
### Variable

<table>
<thead>
<tr>
<th>Pension scheme types (based on open schemes)</th>
<th>Number of respondents</th>
</tr>
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<tbody>
<tr>
<td>Occupational Defined Contribution (DC)</td>
<td>6</td>
</tr>
<tr>
<td>Occupational Defined Benefit (DB)</td>
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<tr>
<td>Defined Contribution and Defined Benefit</td>
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<td>Group Personal Pensions</td>
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<td>Stakeholder pensions</td>
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<tr>
<td>Stakeholder and Defined Benefit</td>
<td>1</td>
</tr>
<tr>
<td>Stakeholder and Group Personal Pensions</td>
<td>7</td>
</tr>
<tr>
<td>Stakeholder and Defined Contribution</td>
<td>1</td>
</tr>
<tr>
<td>Contribute to personal pensions</td>
<td>6</td>
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</tbody>
</table>

### Pension scheme membership (where applicable)

<table>
<thead>
<tr>
<th></th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low 0-25%</td>
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</tr>
<tr>
<td>Medium 26-75%</td>
<td>10</td>
</tr>
<tr>
<td>High 76-100%</td>
<td>13</td>
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</table>
Appendix C
The analysis of qualitative material using Matrix Mapping

Material collected through qualitative methods is invariably unstructured and unwieldy. Much of it is text based, consisting of verbatim transcriptions of interviews and discussions. Moreover, the internal content of the material is usually detailed and in micro-form (for example, accounts of experiences and inarticulate explanations). The primary aim of any analytical method is to provide a means of exploring coherence and structure within a cumbersome data set whilst retaining a hold on the original accounts and observations from which it is derived.

Qualitative analysis is essentially about detection and exploration of the data, making sense of the data by looking for coherence and structure within the data. Matrix Mapping works from verbatim transcripts and involves a systematic process of sifting, summarising and sorting the material according to key issues and themes. The process begins with a familiarisation stage and includes a researcher’s review of the audio files and/or transcripts. Based on the coverage of the topic guide, the researchers’ experiences of conducting the fieldwork and their preliminary review of the data, a thematic framework is constructed. The analysis then proceeds by summarising and synthesising the data according to this thematic framework using a range of techniques such as cognitive mapping and data matrices.
When all the data have been sifted according to the core themes the analyst begins to map the data and identify features within the data:

- defining concepts;
- mapping the range and nature of phenomenon;
- creating typologies;
- finding associations; and
- providing explanations.

The analyst reviews the summarised data; compares and contrasts the perceptions, accounts, or experiences; searches for patterns or connections within the data and seeks explanations internally within the data set. Piecing together the overall picture is not simply aggregating patterns, it also involves a process of weighing up the salience and dynamics of issues, and searching for structures within the data that have explanatory power, rather than simply seeking a multiplicity of evidence.