Employer attitudes to personal accounts: Report of a qualitative study

Helen Marshall and Andrew Thomas

A report of research carried out by BMRB Limited on behalf of the Department for Work and Pensions
## Contents

Acknowledgements ........................................................................................................ vii

The Authors ................................................................................................................... viii

Summary ......................................................................................................................... 1

1 Introduction ................................................................................................................. 11
   1.1 Background ........................................................................................................... 11
   1.2 Research aims ....................................................................................................... 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 depth interviews .................................................................... 17
      1.3.4 Analysis of findings ....................................................................................... 17

2 Employers’ attitudes towards pension provision ......................................................... 19
   2.1 Employers’ attitudes to pension responsibility ..................................................... 20
      2.1.1 The role of the individual ............................................................................. 20
      2.1.2 The role of the employer ............................................................................. 21
      2.1.3 The role of the Government ......................................................................... 22
      2.1.4 The balance of responsibility ....................................................................... 23
   2.2 Factors influencing the decision to make an employer contribution ..................... 23
   2.3 Factors affecting pension take-up ........................................................................ 24
   2.4 Awareness of the Pensions Commission’s recommendations ............................... 26

3 Views on automatic enrolment ..................................................................................... 27
   3.1 Employers’ views on automatic enrolment ......................................................... 28
   3.2 The administrative impact of automatic enrolment .............................................. 29
   3.3 Employers’ views about re-enrolment ................................................................. 30
3.4 Eligibility

3.4.1 Identification of eligible employees

3.4.2 Views about a minimum age requirement of 21 years old

3.4.3 Views about a minimum earnings threshold of £5,000

4 Employers’ views on the level of contributions

4.1 Employers’ views on the level of employer contribution

4.2 Views about the level of employee contributions

4.3 Views on the overall balance of contribution levels proposed by the Pensions Commission

4.4 Views about contributions between the lower and upper earning thresholds

5 Employers’ likely responses to a three per cent minimum employer contribution

5.1 Employers’ likely responses to a three per cent minimum employer contribution

5.1.1 Absorbing the costs of a minimum employer contribution

5.1.2 Passing additional pension costs on through prices

5.1.3 Passing additional pension costs through to wages

5.1.4 Encouraging employees to opt-out of personal accounts

5.1.5 Restructure/reduce workforce

5.2 The impact of personal accounts on employers already contributing to a pension scheme

6 Employers’ views on employee reactions to personal accounts

6.1 Employers’ views of employee responses to the concept of a personal account pension scheme

6.2 Which employees will opt out of personal accounts?

6.3 The potential impact of personal accounts on salary expectations and staff retention

6.4 Portability

6.5 Liquidity

7 The process of introducing personal accounts

7.1 Administration support needs

7.2 Information needs

7.3 Phasing-in

7.4 Amelioration mechanisms

7.5 Communicating to the public

7.6 Compliance regimes
8 Employers’ views of the different operating models of personal accounts ................................................................................................................... 55
  8.1 Model A – automatic enrolment into a stakeholder pension scheme designated by the employer .......................................................... 58
  8.2 Model B – a central agency acting as an intermediary (a central clearing house) with employee choice of provider .......... 60
  8.3 Model C – automatic enrolment into a centrally administered National Pension Savings Scheme ............................................ 61

9 Non-business employers ............................................................................................................ 63
  9.1 Views on automatic enrolment ........................................................................................................ 64
  9.2 Views on the minimum employer contribution ................................................................. 65
  9.3 Views on the personal accounts operating models .......................................................... 66
  9.4 Administration and information needs ................................................................................. 67

10 Conclusions ................................................................................................................................. 69
  10.1 Business employers .................................................................................................................. 69
  10.2 Non-business employers ........................................................................................................ 71

Appendix A Business topic guide ................................................................................................ 73
Appendix B Non-business topic guide ........................................................................................ 89
Appendix C Screening questionnaire ............................................................................................. 105
Appendix D Analysis ...................................................................................................................... 109

List of tables
Table 1.1 Sample profile of the business employers who took part in the research ......................................................... 16
Table 1.2 Sample profile of the business employers who took part in the research, by whether or not they offer an employer contribution to a pension scheme and employer size ................................................. 16
Table 1.3 Sample profile of the non-business employers who took part in the research ............................................. 17

List of figures
Figure 8.1 Personal account operating models presented to respondents ................................................. 57
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The Authors

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Summary

This summary presents findings from qualitative research carried out with employers towards the concept of automatically enrolling people into personal accounts. This work was undertaken by BMRB Ltd on behalf of the Department for Work and Pensions (DWP). The independent Pensions Commission’s report¹, published on 30 November 2005, recommended a range of pension reforms including the creation of a National Pension Savings Scheme (NPSS) into which all eligible employees not covered by other adequate pension arrangements, should be automatically enrolled but with the right to opt out. The Government has been consulting widely on pension reform and as a part of this process wished to explore employers’ reactions to the idea of automatically enrolling people into a personal account pension scheme. This research used the Pensions Commission’s proposal for an NPSS as a framework to explore employer attitudes towards various options and features that a personal account pension scheme might have.

Aims

The principal objectives of the qualitative research were to explore the views of employers towards the concept of automatic enrolment into ‘personal accounts’ and employers’ likely responses if the new scheme were introduced.

The specific objectives of the project were to:

• Explore general attitudes to pension provision
• Examine awareness and impact of the pensions debate
• Explore reactions to the notion of automatically enrolling employees into a personal account scheme
• Consider views about the level of employer (if any) and employee contributions into a personal account scheme

• Explore views towards possible operating models for personal accounts and issues such as responsibility for nominating a pension provider, responsibility for collecting contributions, and the potential NPSS

• Specific issues such as eligibility, liquidity and portability

• The potential costs and administrative burdens of any new personal account arrangements, together with the likely impact on the employer and an exploration of possible employer responses to the option of a minimum employer contribution

• Impact on existing pension provision and views on whether those with an existing pension scheme might wish to apply for exemption from any new pension scheme arrangements

• Transitional and phasing arrangements.

Methodology
The research adopted a wholly qualitative approach. Face-to-face depth interviews were conducted with:

• 75 private sector employers who employ individuals within a business context and

• eight individuals who employ others to provide a service in a non-business context. For example, people who employ a nanny or a gardener (and pay the employee more than £5,000 per annum).

The sample of business employers was purposively selected to reflect diversity in terms of employer size (number of employees), whether the employer made a contribution to a pension scheme or not, industry and geographical area. Non-business employers were sampled to include a range of geographical areas in Great Britain. Fieldwork took place during January and February 2006.

Attitudes towards pension provision for employees
Overall, employers regarded pension saving as primarily the personal responsibility of the individual, although it was accepted that both the employer and the Government also have a role to play in pension saving.

Employer size and whether employers contributed to employees’ pensions underpinned variations in employers’ views about the balance of responsibility for retirement saving across the individual, the employer and the Government.

Smaller employers (fewer than 50 employees) thought that employers should have a more limited responsibility for pension saving, whereas larger employers perceived their own role as more important.
Employers not contributing to the pensions of their employees generally regarded the responsibility of the Government to be greater than their own, employers (regardless of size) making contributions took a more comprehensive view of pension responsibility and considered their own role to be integral to pension responsibility in addition to the Government.

Two main reasons were offered to explain why employers thought employees do not take up pensions offered by the employer or who do not save for retirement generally: a lack of value and interest placed on saving for retirement, and an inability to afford reduced disposable income.

Awareness of the recommendations made in the Pensions Commission’s report varied across employer size. Employers with 50-249 employees had the greatest level of knowledge of the report’s recommendations and had gathered information about it from a wide range of sources. Larger employers tended to report that they would consider the implications of any new measures when they were announced.

**Employers’ views about automatic enrolment**

The Pensions Commission’s report recommended that employees are automatically enrolled into a pension scheme but with the right to opt out.

Support for automatic enrolment was strong across all types of employers. Automatic enrolment was perceived as a positive measure that would help address under-saving for retirement in the UK. They considered that it would encourage saving for retirement, help overcome inertia and increase the take-up of pensions.

Some employers expressed concerns about the potential administrative impact and administrative cost of automatic enrolment. These employers tended to be small employers, employers that employ large numbers of temporary staff or have a high staff turnover and employers that currently offer a pension scheme but with a low level of membership. However, employers with high levels of pension scheme membership thought that the administrative impact of automatic enrolment would be minimal or neutral.

The Pensions Commission’s report also recommended re-enrolment where employees have opted out. Those with high levels of pension scheme membership were the most supportive of the idea and felt it a good idea for employees to periodically reconsider joining a pension scheme to capture individuals who opt out but whose circumstances later change. Critics of re-enrolment thought that employees would opt out for personal or financial reasons and would consider this to be an intrusion that could potentially strain employer-employee relations.

The Pensions Commission’s proposed time frame of three to five years was acceptable to those in favour of re-enrolment, those critical of the idea felt that if re-enrolment was to be implemented, the time frame should be longer than ten years.
It was a strongly held view across employers that automatic enrolment should start from the age of 16, or whenever a person started their first paid job. Employers were of the opinion that employees who had been earning before they were 21 were likely to opt out of a personal account scheme if they had become accustomed to the money in their net pay. However, a few employers were in favour of a minimum age threshold of 21, particularly those in the retail sector who tend to have a concentration of staff under 21 who fill roles with a high turnover.

Employers were largely ambivalent to the suggested income eligibility criterion of £5,000 because this would apply to such a small proportion of their employees. Employers felt that employees earning less than £5,000 should not be excluded from the opportunity to save and should be allowed to join the scheme voluntarily.

**Employers’ views on the level of contributions**

Views on the level of a minimum employer contribution varied according to whether or not employers felt they were able to absorb any additional costs through profits or increased prices and whether they already contributed to a pension scheme.

Employers that were not making a contribution to a pension scheme but said they were able to absorb the additional costs through profits considered that the Pensions Commission’s recommendation of a three per cent minimum employer contribution was acceptable. Employers already making a contribution at or above this level, thought that the contribution level should be higher in order to help employees generate adequate pension savings for retirement.

Considering the sample as a whole, those who tended to express concerns about a minimum employer contribution of three per cent were mostly concentrated among smaller employers and employers that do not contribute to a pension scheme. These employers felt that they could neither absorb the costs through profits or pass them on through prices. Some did suggest that they could afford a one per cent or two per cent contribution, providing it was phased in over time.

The Pensions Commission’s recommendation of a four per cent employee contribution was regarded as acceptable for average income employees. Employers of low paid workers expressed concerns that this would be too high for the employee to manage, employers of high paid workers thought the level may be too low to create sufficient retirement savings.

There was a general consensus that the balance between the Pensions Commission’s proposed levels of employee and employer contributions was acceptable.

There was some surprise that the Government’s contribution would be one per cent. Some employers questioned whether a one per cent contribution from the State was a significant enough incentive to encourage saving for retirement.

There was general support for the proposal of employer and employee contributions only being made on earnings between a lower and upper threshold of around £5,000 and £33,000.
Employers’ likely responses to a minimum employer contribution

Employers were asked to consider how their business would deal with a minimum employer contribution of three per cent. The three most salient strategies were:

• The additional costs would be **absorbed by the employer through profits**. Typically, these were employers with 250+ employees operating in the service sector where profit margins were described as ‘high’, and employers already contributing to a pension scheme at, or above, the level of three per cent

• Costs would be **passed on through prices**, a view that was held by small and medium-sized employers that either did not wish to absorb the additional costs through profits or considered that their market position was such that they would be able to pass on the costs through prices without affecting their market share

• Small and medium-sized companies that did not consider that they had the options of absorbing the costs through profits or of passing them on through prices, considered that **passing on costs through to wages** was their most likely course of action.

There was also some limited mention of the following strategies:

• A few employers, particularly those concentrated in the manufacturing/retail sector mentioned that they may **encourage employees to opt out of personal accounts**

• Some small and medium-sized employers who were competing in a very competitive global market or with illegal traders indicated that they may **reduce staff, reorganise staff to work part-time hours or employ staff on a freelance basis**. A few of these employers mentioned the possibility of **business closure**.

Employers currently operating pension schemes with an employer contribution of three per cent or more reported that they were likely to apply for exemption from any new pension scheme arrangements as they viewed their pension scheme as an important recruitment and retention tool that they would want to keep. There was very little evidence that these employers would ‘level down’ their existing schemes in response to personal accounts.

Employers’ views about employee reactions to personal accounts

Employers thought that employees who recognise the need for saving for retirement will support the scheme and automatic enrolment will help encourage saving.
Employees most likely to opt out were considered to be: those unable to afford it, those with other spending priorities (particularly young people), those with alternative arrangements, and employees who do not wish to be involved in a scheme that is seen to be government run.

Employers were of the view that a pension scheme was not in itself a key to staff retention but may be a deciding factor when making a decision between employers.

The idea of a portable pension account which employees would take with them when they moved employers was strongly supported across all employers in the research. Employers described it as ‘vital’ for an NPSS because it would encourage employees not to opt out of the scheme.

Employers generally felt that the option of liquidity (allowing employees to access the money in their pension for reasons other than retirement) would undermine the purpose of the scheme, reduce the value of employer contributions and increase administrative costs for the employer.

The process of introducing personal accounts

Employers found it difficult to respond to questions on how a new pensions system of personal accounts should be implemented, as they found it hard to envisage how their business would be affected.

Administration support needs

The level of activity of employers’ current pension set-up was central to employer perceptions of support needed with administration in order to implement the proposals. Employers with a pension scheme with a high level of membership were confident that any additional administration could be handled under their current administrative arrangements. By contrast, employers with a pension scheme with low membership and those without a pension scheme raised some concerns about new administration that might be required.

Information needs

Employers expected to receive information about the new scheme and the associated regulations from the Government. However employers also indicated they would take advice from accountants, independent financial advisers, trade unions and industry bodies.

Employers with an existing pension scheme that had low membership levels said that they would be reluctant to provide information to employees, unless it involved passing on a standard information pack provided by the Government. Inexperienced in pensions, these employers felt ill-equipped to give information which they perceived as ‘giving advice’ and were anxious that they may not do this well.
A good helpline service and online facilities for managing personal accounts and for gaining information were considered important. Employers felt that both the employer and employee should have access to personalised information about any new pension arrangements.

**Phasing in**

Employers with concerns about a three per cent minimum employer contribution felt the scheme should be phased in by employer contribution level. These employers felt that raising the contribution level over time from ½ per cent to three per cent would allow for their financial planning to take into account the costs.

Smaller employers (fewer than 50 employees) suggested that the arrangements should be phased in by employer size, with larger employers first. In contrast, larger employers felt that all employers should become eligible together to ensure that some businesses did not gain a competitive advantage during any phasing-in process. However, larger employers indicated that if the arrangements were phased in by employer size, they would understand why this was necessary.

Introducing personal accounts on a voluntary basis was felt to be a poor option as it would result in a patchy approach to pension provision.

**Compliance**

There was general agreement that strong mechanisms would be necessary to ensure compliance with the new scheme. Fines, or the threat of prosecution, were suggested as ways of ensuring compliance. However, employers felt that incentives such as reductions in employer taxation for complying with the introduction of personal accounts would be more effective than penalties.

**Employers’ views of the different operating models of personal accounts**

Small and medium-sized employers, particularly those without a pension scheme or with a pension scheme with low membership levels, did not want a model where they had the responsibility of choosing a pension provider. These employers said they felt they lacked the confidence to make a good choice of provider and did not wish to take on any liability they mistakenly perceived might arise from this choice.

By contrast, larger employers, particularly those with an existing scheme with medium/high levels of membership, tended to favour Model A (a stakeholder pension scheme designated by the employer) as this was most similar to their current arrangements. These employers wanted to keep their existing scheme and were likely to apply for an exemption from any new pension arrangements.

Employers were negative towards the idea of a central clearing house as they saw this as introducing an unnecessary layer of bureaucracy and so were against this
aspect of Models B (a central clearing house with employee choice of provider) and C (an NPSS). However, employers said they would support the idea of centralisation provided that it reduced costs for employers and improved the efficiency of the scheme.

Employers generally reported that they lacked confidence in the Government’s ability to organise and run a large organisation effectively. However, while there was a view that a private organisation would run a new scheme more efficiently, there were concerns, particularly from smaller employers, that such a scheme should not make any profits.

Employers, particularly small and medium-sized employers with a low take-up of their existing scheme felt strongly that simplicity was important. These employers, therefore, tended to favour Model C (an NPSS) which was perceived as being the most straightforward. They also felt it would reduce administration and remove any employer liability which they mistakenly perceived would arise from choosing a provider.

Overall, all employers felt strongly that any money invested in the scheme should be ring-fenced and kept ‘safe’ from public spending or from supporting the cost of setting up and running a new agency.

Non-business employers

Non-business employers considered automatic enrolment to be a measure which would help address the UK’s under saving problem and would be good for employees generally, but there was widespread anxiety that any new administration may be difficult and time-consuming, they felt that employer involvement should therefore be minimal. Non-business employers were ambivalent towards the idea of re-enrolment.

Non-business employers were not overly concerned about the minimum employer contribution. They accepted the small additional cost providing eligibility remained above the proposed minimum of around £5,000.

It was a strongly held view that their employees were likely to opt out of the scheme. Three main reasons were offered as to why this group of employees were likely to opt-out: their employees were generally young and not interested in saving for retirement, these employees were generally supplementing household income or would regard pension contributions as too low to generate a good return.

Non-business employers found it difficult to predict what administration and information needs they may have on implementation of the proposals but indicated that there would need to be a telephone help line for enquires and seeking assistance. Easily available help, particularly in terms of dealing with the administrative aspects of any new scheme was felt to be important.
Similar to smaller employers, non-business employers did not want the responsibility of choosing a pension provider and felt they do not have the knowledge to do this. Consequently, Model A which proposed automatic enrolment into a stakeholder pension scheme designated by the employer was rejected by these employers.

Model C, an NPSS was preferred by non-business employers because it was perceived to offer the least employer responsibility and administration.

A lack of trust in the government to run such a new agency effectively meant that non-business employers would not want the government to control or manage any new agency.
1 Introduction

1.1 Background

In its report published on 30 November 2005, the Pensions Commission\(^2\) recommended a range of measures to address the low levels of private saving for retirement amongst certain groups of individuals in the UK. One such measure that was recommended was the creation of a National Pension Savings Scheme (NPSS). Eligible employees that are not already covered by adequate alternative pension arrangements would be automatically enrolled into this scheme\(^3\). The employee would have the choice to opt out. Employees would contribute five per cent, including tax relief and employers would contribute three per cent on employees’ gross earnings between a primary threshold of about £5,000 and an upper earnings limit of around £33,000.

The Government has been consulting widely on pension reform and as a part of this process wished to conduct research to explore employers’ reactions to the idea of automatically enrolling people into a personal account scheme as a way of encouraging more individuals to save for retirement.

The Department for Work and Pensions (DWP) recognises that personal accounts could take a number of forms, with a range of different features, and with employers and the State playing various roles. To inform the Government’s considerations in this area, DWP wanted an in-depth exploration of the views of employers towards automatic enrolment into personal accounts, focusing on the different features of a possible personal account scheme.


\(^3\) The Pensions Commission proposed that adequate alternative pension arrangements would have to meet certain minimum criteria. These criteria include: the automatic enrolment of employees into the scheme and an employer contribution and total level of contribution at least as good as the NPSS after taking account of charges.
BMRB Social Research was commissioned to undertake this qualitative research with employers. This research was commissioned alongside another project which explored qualitatively the views of the public4. A sister project has additionally been conducted at BMRB Social Research within our Surveys division. This research provides the results of a quantitative survey of private sector employers investigating reactions to, and views of, automatic enrolment into personal accounts and on the possible features and operation of such a new retirement savings product. The findings of the quantitative survey are reported separately5.

This report outlines the findings from the qualitative research. This chapter provides an overview of the objectives, design and conduct of the research. It is followed by eight further chapters: Chapter 2 describes employer attitudes to pension responsibility and awareness of the recommendations made in the Pensions Commission’s report. Chapter 3 explores views on automatic enrolment, re-enrolment and eligibility criteria. Views on the level of contributions are considered in Chapter 4, including attitudes to the level of contributions for employers, employees and overall the balance of these levels. Chapter 5 explores employers’ likely responses to a minimum employer contribution of three per cent and impact of personal accounts on those who contribute to a pension scheme. Chapter 6 examines employers’ views on employee reactions to personal accounts. The chapter also explores employers’ reactions to two other aspects of personal accounts: the feature of portability and the option of liquidity. Chapter 7 considers employers’ views on the process of introducing personal accounts focusing on support employers may need. Chapter 8 considers employer responses to different possible operating models for a system of personal accounts and employers’ views on the different features. Chapter 9 discusses non-business employers’ attitudes to personal accounts and the features proposed. Finally, Chapter 10 draws some conclusions arising from the study.

1.2 Research aims

The principal objectives of the qualitative research were to explore the views of employers towards the concept of automatic enrolment into personal accounts and possible employer responses to these proposals.

The specific objectives of the project were to:

- Explore general attitudes to pension provision
- Examine awareness and impact of the pensions debate

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• Explore reactions to the notion of automatically enrolling employees into a personal account scheme

• Consider views about the level of employer (if any) and employee contributions into a personal account scheme

• Explore views towards possible operating models for personal accounts and issues such as responsibility for nominating a pension provider, responsibility for collecting contributions, and the potential NPSS

• Specific issues such as eligibility, liquidity and portability

• The potential costs and administrative burdens of any new personal account arrangements, together with the likely impact on the employer and an exploration of possible employer responses to the option of a minimum employer contribution

• Impact on existing pension provision and views on whether those with an existing pension scheme might apply for an exemption from the pension scheme arrangements

• Transitional and phasing arrangements.

1.3 Research design and conduct

The research adopted a wholly qualitative methodology. This enabled the research team to explore the range and diversity of views, investigate at micro level the attitudes of employers towards personal accounts, and it also enabled a flexible approach to discussing pensions, which could be commercially sensitive. Face-to-face depth interviews with employers were utilised as the research method. Due to the complex nature of the research, stimulus materials were used (see show cards A-D in the topic guide, Appendix A for further details).

The research included:

• Private sector employers that employ individuals within a business context and

• Individuals who employ others to provide a service in a non-business context. For example, people who employ a nanny or a gardener (and pay the employee more than £5,000 per annum).

Individuals who employ someone in a non-business context could potentially be affected by future legislation, therefore, this group were included in the research. As the issues were likely to be very specific to such employers only a small number of interviews were conducted.

Interviews were spread across five locations in Great Britain: Birmingham, London, Manchester, Cardiff and Glasgow.

A set of questions were 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 involved in decision making about the policy of the scheme.
The person interviewed was usually a finance director or pensions manager but not a pensions administrator. If the company did not have a pension scheme the individual selected needed a good working knowledge of the company’s finances and to be involved in financial decision making and financial planning. This was usually the finance director, or in a micro-business, the company owner or managing director.

1.3.1 Sample design
As is usual in qualitative research, the sample was designed to ensure full coverage of the key sub-groups within the target population in order to identify and explain variations in the nature of experiences and views between them. In order to achieve this, the sample of business employers was purposively selected to reflect diversity in terms of employer size (number of employees), whether the employer made a contribution to a pension scheme or not, industry sector and geographical area. Employer size and whether the employer made a contribution or not were considered the most important variables, with the sample being structured to reflect this.

Quotas were set in order to prescribe the distribution of the sample selected. Some of the sampling criteria were relaxed slightly as a result of difficulties with finding smaller employers that contribute to employees’ pensions and larger employers that do not make a contribution to employees’ pensions.

The profile of the achieved sample can be seen in Section 1.3.2.

Employer size was divided into five bands:

- 1-4 employees
- 5-49 employees
- 50-249 employees
- 250-999 employees
- 1,000+ employees.

Within this final category (1,000+ employees), five employers employing over 5,000 employees were also sampled in order to include the views of very large employers.

Employers were sampled to include both employers that currently contribute to at least some of their employees’ pensions and also employers that do not contribute to any of their employees’ pensions. The latter group included employers that did not currently offer a pension scheme at all and employers offering a pension scheme but without an employer contribution.

Whether employers make a contribution or not was purposively sampled across all employer sizes. It was recognised that large employers were more likely to make an employer contribution and small employers were less likely to make an employer
contribution. Consequently, the sample quotas were designed to reflect this. Large employers that do not make a contribution to employees’ pensions proved difficult to recruit and the proposed quota was not achieved in this category.

Given the wide range of industries into which employers can be categorised, meta-categories were created – retail, manufacturing, services, and other – to organise the diversity of employers into broad groups. Examples of employers categorised as ‘other’ included private educational organisations, leisure facilities and media companies. Although this does not permit a detailed analysis across industrial sectors, it ensures that a range of industries are represented.

Eligibility for the study was determined during a screening interview carried out by members of the BMRB’s network of recruiters (see Appendix C for further details). The Dunn and Bradstreet database was used as the main sample source for employers. However, there were some difficulties in finding specific types of employers, particularly those micro and small employers that contribute to a pension scheme and those large employers that do not. Consequently, in order to find the more difficult-to-find employers, ‘free-find’ techniques and ‘snowballing’ were used. With free-find, the recruiter looked for employers in the recruitment catchment area that did not appear on the database. With the ‘snowballing’ technique, the recruiter asked an employer that they had contacted as part of the recruitment process whether they knew of any other employers who fitted a particular description (e.g. small and who make contributions to a pension scheme). That employer was then contacted by the recruiter and the screening process carried out.

1.3.2 Sample profile

A total of 83 people took part in the research including 75 business employers and eight non-business employers. Tables 1.1 to 1.3 outline the profile of those taking part in the study.
Table 1.1  Sample profile of the business employers who took part in the research

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Table 1.2  Sample profile of the business employers who took part in the research, by whether or not they offer an employer contribution to a pension scheme and employer size

<table>
<thead>
<tr>
<th>Business</th>
<th>1 to 4</th>
<th>5 to 49</th>
<th>50 to 249</th>
<th>250 to 999</th>
<th>1,000-4,999</th>
<th>5,000+</th>
</tr>
</thead>
<tbody>
<tr>
<td>No employer contribution</td>
<td>13</td>
<td>10</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>3</td>
<td>5</td>
<td>10</td>
<td>13</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>16</td>
<td>15</td>
<td>14</td>
<td>15</td>
<td>11</td>
<td>4</td>
</tr>
</tbody>
</table>

N = 75
Table 1.3 Sample profile of the non-business employers who took part in the research

<table>
<thead>
<tr>
<th>Variable</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area</td>
<td></td>
</tr>
<tr>
<td>London</td>
<td>3</td>
</tr>
<tr>
<td>Manchester</td>
<td>1</td>
</tr>
<tr>
<td>Birmingham</td>
<td>1</td>
</tr>
<tr>
<td>Glasgow</td>
<td>1</td>
</tr>
<tr>
<td>Cardiff</td>
<td>2</td>
</tr>
</tbody>
</table>

1.3.3 Conduct of the depth 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 Appendices A and B for the business and non-business topic guides respectively), which outlined the key themes to be addressed and the specific issues for coverage within each. Although topic guides ensure systematic coverage of key points across groups, 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 models of possible pension reform (see Figure 8.1 for further details). All the interviews were recorded after first securing the agreement of all participants.

The interviews were carried out in the respondents’ offices. Participants were given a small payment in appreciation of their time and any expenses involved in taking part. The depth interviews lasted between approximately one hour and one hour and 30 minutes.

1.3.4 Analysis of findings

Verbatim transcripts, produced from digital recordings, were subject to a rigorous content analysis, which involved systematically sifting, summarising and sorting the verbatim material according to key issues and themes, within a thematic matrix. Further classificatory and interpretative analyses were then derived from the analytic charts and these formed the basis of the findings reported in subsequent chapters. The findings reported have been illustrated with the use of verbatim quotations and examples.

Adopting a qualitative approach has made it possible to report on the range of views, experiences and suggestions reported by participants. Where appropriate and evident, distinctions have been drawn between different sub-groups, in particular, different size employers as well as if the employer contributed to a pension scheme or not, industry and geographical area. 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, experiences
or suggestions. Where any conclusions of this type are suggested, they would require substantiating through quantitative research. As mentioned earlier, findings from a quantitative survey of private sector employers are reported separately. A detailed description of our analytical procedure is presented in Appendix D.
2 Employers’ attitudes towards pension provision

This chapter outlines employers’ attitudes towards pension provision. In particular, the chapter explores employers’ attitudes to the balance of responsibility for retirement saving between employer, employee and the Government, the reasons why employers may choose to offer an employee a pension scheme and how this varies across employers of different sizes. In addition, the chapter examines employers’ views on factors affecting the take-up of the pension offered, if any, and their awareness of the recommendations made in the Pensions Commission’s 6 second report published in November 2005.

Summary

Overall, employers regarded pension saving as primarily the personal responsibility of the individual, although it was accepted that both the employer and the Government also have a role to play in pension saving.

Employer size and whether employers contributed to employees’ pensions underpinned variations in employers’ views about the balance of responsibility for retirement saving across the individual, the employer and the Government.

Smaller employers (fewer than 50 employees) thought that employers should have a more limited responsibility for pension saving, whereas larger employers perceived their own role as more important.

Continued

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Employers not contributing to the pensions of their employees generally regarded the responsibility of the Government to be greater than their own. Employers (regardless of size) making contributions took a more comprehensive view of pension responsibility and considered their own role to be integral to pension responsibility in addition to the Government.

Two main reasons were offered to explain why employers thought employees do not take up pensions offered by the employer or who do not save for retirement generally: a lack of value and interest placed on saving for retirement and an inability to afford reduced disposable income.

Awareness of the recommendations made in the Pensions Commission’s report varied across employer size. Employers with 50-249 employees had the greatest level of knowledge of the report’s recommendations and had gathered information about it from a wide range of sources. Larger employers tended to report that they would consider the implications of any new measures when they were announced.

2.1 Employers’ attitudes to pension responsibility

2.1.1 The role of the individual

Overall, employers regarded pension saving as primarily the responsibility of the individual. Individuals who were able but chose not to make additional provision for retirement over and above the Basic State Pension were perceived as being financially irresponsible and employers resented the idea of employer responsibility where the individual was not taking any responsibility themselves. This sentiment was sometimes part of a wider issue about individuals who have failed to make adequate provision for retirement and should not, therefore, be supported by the Government in retirement.

Reliance on the State by those who had not made adequate provision for themselves but were able to do so, was regarded as unfair on individuals who had saved for retirement and a tax burden for the nation. These views were concentrated amongst smaller employers (fewer than 50 employees) that were not making any contribution to a pension scheme.

Where small employers were making a contribution this was regarded more as a staff benefit rather than an employer responsibility, whereas larger employers already contributing towards employees’ pensions, considered their contribution to be an important element in a wider sense of responsibility for pension saving. Ultimately, they felt that primary responsibility for retirement provision rested with the individual, but in addition to their own role as an employer and that of the Government. Employers suggested that individuals must accept ultimate responsibility to be certain of adequate financial security in later life.
'There is an amount that an employer should do, but that shouldn’t extend to removing the individual accountability and responsibility that we all should bear for making our own provision for retirement.'

(1,000-4,999 employees, other [leisure], Midlands, employer contribution)

Furthermore, there was the suggestion that those employees who choose to work for an employer that makes a contribution should value this benefit and return it with staff loyalty.

2.1.2 The role of the employer

Employers making contributions to their employees’ pension felt that employers had an important role to play in helping employees to save for retirement, although it was not necessarily perceived as an obligation. Smaller employers saw pension contributions more as a staff benefit, larger employers saw them more as an employer responsibility.

Employers that contribute to employees’ pensions indicated that there were three ways in which they felt they had a role in helping employees to save:

• Setting up a pension to facilitate ease of pension uptake
• Providing a service of automatic deductions from pay to assist with ease of payment
• Making an employer contribution to increase the overall level of saving and therefore, the effectiveness of saving.

By making a contribution to an employee’s pension, value was gained by the employer in terms of staff retention. Smaller employers who contributed to a pension tended to recognise the value of an employer contribution in increasing staff retention and thereby reducing costs associated with having to take on and train new staff.

Large employers (250+ employees) who contribute to a pension scheme generally considered the employer contribution an aspect of employer responsibility as well as part of an overall package of remuneration that was comparable with other employers in the same sector:

‘My view has always been that we had an obligation to ensure people either thought about their pension, or in some way provided something, and we assisted them in doing that.’

(1,000-4,999 employees, manufacturing, Midlands, employer contribution)

Larger employers that did not contribute to a pension scheme recognised the role of the employer as having a responsibility for helping employees save for retirement but considered a pension contribution too expensive for their business.
Smaller employers (fewer than 50 employees) not contributing to employees’ pension schemes suggested that although they recognised that there was a role for the employer in helping people save for retirement, they did not do so for four reasons: they were too busy; there were few incentives for them to encourage pension uptake; pension set-up costs were considered to be too expensive; they did not feel it was their responsibility to ensure employees were provided for in retirement.

‘Why do I have to pay anything for someone else’s future because they work for me?’

(1-4 employees, retail, Scotland, no employer contribution)

2.1.3 The role of the Government

There was a strongly held view across all the employers that the Government had an integral role in the responsibility for pension provision. Responsibilities included:

- Educating the public on the importance of saving for retirement
- Encouraging saving through incentives such as tax breaks for employees and employers
- Protecting existing pension savings and providing security.

Employers suggested that low public confidence in the Government to protect the value of pension funds had contributed to the decline in private pension uptake. There were some examples of employers who considered Government handling of issues such as National Insurance, SERPS and mortgage endowment mis-selling to be ‘so bad’ that they had very little confidence in the Government to act responsibly in relation to pensions. Furthermore, employers pointed to low public confidence that the Government would provide an adequate State Pension in the future.

In the main, employers not making a contribution to employees’ pensions and smaller employers considered the Government’s responsibility to be high, especially in terms of contributing to pension saving and providing a State Pension. Employers already making a contribution, especially larger employers (250+ employees) considered the onus on the Government to be less, accounting for their own role in the balance of responsibility for pension saving.

7 The Pensions Act 2004 introduced a range of measures to improve security and confidence for occupational pension scheme members including the setting up of the Pension Protection Fund (PPF) to protect members of defined benefit schemes (and the defined benefit element of hybrid schemes) by paying compensation should their employer becomes insolvent and the pension scheme is underfunded. It also pays compensation to pension schemes that are unable to meet their obligations due to fraud. The PPF went live on 6 April 2005. The Pensions Act 2004 also established a new regulatory body, The Pensions Regulator (TPR), to protect members’ benefits and promote good administration of work-based pension schemes.
2.1.4 The balance of responsibility

Overall, employers regarded pension saving as primarily the personal responsibility of the individual. However, it was also generally accepted that both the employer and the Government also have a role to play in pension saving. Employers not contributing to the pension savings of their employees generally regarded the responsibility of the Government to be greater than their own. However, employers making contributions took a more comprehensive view of pension responsibility and considered their own role to be integral to pension responsibility in addition to the Government.

This gradient of views on the balance of responsibility was also strongly reflected across employer size: smaller employers (fewer than 50 employees) held the view that the employer had a limited responsibility for pension saving, whereas large employers perceived their own role as more important.

2.2 Factors influencing the decision to make an employer contribution

This section of the report considers the factors influencing whether employers offer a contribution to employees’ pensions and employers’ views on the factors affecting employee take-up of the pension scheme offered.

The main factors determining the decision to make an employer contribution were:

• Strongly held views about the importance of saving for retirement and the role of the employer
• Employee demand
• The benefit of staff retention.

The main factors determining the decision not to make an employer contribution were:

• No pension set-up
  – Some micro-employers did not offer a workplace pension scheme at all. This was attributed to the fact that there was no legal requirement for them to do so8
• Perceived lack of employee concern about pensions or very little demand from employees for an employer contribution to the pension offered

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8 Since 8 October 2001, unless exempt from the requirement to designate a stakeholder pension for their staff, an employer with five or more staff must provide access to a stakeholder pension scheme through the workplace if they have one or more ‘relevant employees’.
Employers’ attitudes towards pension provision

- A view that pensions are not the responsibility of the employer
- Good pay was regarded as sufficient to allow staff the flexibility to save for retirement if they wished, or to use money for other needs, maximising employee independence and choice
  
  ‘If I pay a chap £25,000 a year, then it’s up to him how he spends it. It’s not up to me.’

(5-49 employees, service, Midlands, no employer contribution)
- Additional expense of an employer contribution and the possible impact on profit margins
- Limited take-up of the pension scheme to which access had been provided created a view that staff were not interested in or did not value pensions
- Some employers perceived pensions as complex and risky. Minimal cost and involvement was, therefore, preferred
- Other staff benefits such as holiday allowances, comparatively high pay, bonuses and company cars were considered more visible ways of rewarding staff, if they could be afforded
- Employers with high staff turnover (typically large businesses in retail and manufacturing industries) considered an employer contribution to be wasteful.

The size of the employer was also important in the decision to offer a pension scheme. Typically, the likelihood of employers offering a pension scheme increased with employer size, for the reasons discussed in the earlier part of this chapter. However, there were some exceptions. For example, there were micro-employers offering an employer contribution to all employees employed in skilled professional ‘white collar’ jobs. These employers argued that in order to retain staff with such professional skills, adequate pension provision was important to ensure staff were not lost to larger businesses.

2.3 Factors affecting pension take-up

Within the interview, employers that offered a pension scheme were asked about the reasons why employees might, or might not, take up a pension. Overall, employers operating in different sectors and across all sizes concurred. Two main reasons emerged as to why employees might not take up the offer of a pension scheme: a lack of value placed on saving for retirement and a view that employees cannot afford to save for retirement. However, the reasons for these varied.

Lack of value and interest placed on saving for retirement:
- Perceived as risky, low confidence in pensions, will see little return on money, especially over recent years
• Lack of understanding about pensions
• An assumption that the State will provide
• Choosing to provide for retirement by other means (e.g. ISAs, property, inheritance)
• Young and feel it is too early to start saving yet
  
  ‘We’ve looked making provision for the lad who works for us… I had a chat with him but of course he’s only young and you don’t think about doing your own pension at that age do you?’
  
  (1-4 employees, retail, Midlands, no employer contribution)
• A view that it is more important to pay off debts first.

Cannot afford to save for retirement:
• Low paid
• Mortgage/family/debts; more pressing financial needs.

There were also specific types of employees that were thought to be disinterested in pensions. These were: older staff who had saved through a former job, part time workers supplementing a household income and individuals that did not plan to stay with the company for long. A lack of employer contribution was also suggested as a reason why employees did not choose to take up a pension offered. However, employers felt that other factors, such as being low paid, were more important in determining this decision.

By contrast, employers that described their pension scheme take-up as high suggested two reasons for this:
• An employer contribution
• Active encouragement through lively marketing of the scheme(s) including information from independent financial advisers.

Employers suggested that proactive marketing to staff encouraged take-up of pension schemes, although it was still low amongst particular types of employees. While an employer contribution was felt to make a pension scheme more attractive to employees, employers were of the opinion that there were other factors which may limit take-up amongst employees. These included negative views about pensions, saving for retirement in alternative ways, reliance on partners for a retirement income, other spending priorities and low pay.
2.4 Awareness of the Pensions Commission’s recommendations

Employers were asked about their general awareness of Government announcements about pensions and about their awareness of the recent publication of the Pensions Commission’s\(^9\) second report (the ‘Turner Report’). This topic was approached before any information about the Pensions Commission’s recommendations or alternative pension models were presented to respondents. Employers were asked about awareness of key recommendations such as raising retirement age, the National Pension Savings Scheme (NPSS), changes to the Basic State Pension and the proposal for a minimum employer contribution.

Awareness of the recommendations made in the Pensions Commission’s November 2005 report varied across size of employer.

Micro-employers (1-4 employees) reported a very low awareness. Overall, these employers had not generally heard of the Pensions Commission’s report nor were they aware of the recommendations within it. An exception was a micro-business of financial advisers that had read the report for the purposes of their work.

Small employers (5-49 employees) had a greater level of awareness in comparison to micro-employers. Not all were familiar with the name of the report but remembered the recommendation to raise the retirement age. Additionally, there was awareness of the NPSS and an approach including ‘employer compulsion’ to provide a pension scheme. Knowledge had been obtained primarily through the media, although for some the issues had also been highlighted by independent financial advisers.

‘I’ve heard about it, I haven’t read it, just generally through the news and through my own personal financial adviser.’

(5-49 employees, other industry [education], Wales, employer contribution)

Medium employers (50-249 employees) had a very good awareness of the Pensions Commission, their report and the recommendations made. Information had been actively gathered or provided by financial advisers and accountants. These employers had taken an active personal interest in the media reports.

Large employers (250+ employees) reported that awareness was primarily from the media and that there had been little discussion with other decision makers in the company. It was reasoned that gathering information was the job of the pension administrator rather than senior staff and that the implications would not be discussed until the new measures were announced.

3 Views on automatic enrolment

This chapter outlines employers’ attitudes to automatic enrolment and re-enrolment and views on the proposed eligibility criteria for automatic enrolment into personal accounts. In particular, the chapter explores employers’ reactions to the idea of automatic enrolment and explores employers’ concerns about the administration of automatic enrolment. The notion of re-enrolment is also considered, including the proposed timescale for automatic re-enrolment. The chapter concludes with a consideration of employers’ views towards the proposed eligibility criteria, based on age and earnings, for automatic enrolment into personal accounts.

Summary

The Pensions Commission’s report recommended that employees are automatically enrolled into a pension scheme but with the right to opt out.

Support for automatic enrolment was strong across all types of employers. Automatic enrolment was perceived as a positive measure that would help address under-saving for retirement in the UK. They considered that it would encourage saving for retirement, help overcome inertia and increase the take-up of pensions.

Some employers expressed concerns about the potential administrative impact and administrative cost of automatic enrolment. These employers tended to be small employers, employers that employ large numbers of temporary staff or have a high staff turnover and employers that currently offer a pension scheme but with a low level of membership. However, employers with high levels of pension scheme membership thought that the administrative impact of automatic enrolment would be minimal or neutral.

The Pensions Commission’s report also recommended periodic re-enrolment where employees have opted out. Those with high levels of pension scheme membership are likely to be affected.

Continued
The Pensions Commission's report included, among other things, a recommendation for the establishment of a National Pension Savings Scheme (NPSS), into which individuals would be automatically enrolled, but with the right to opt out. Employees would be automatically enrolled into a personal pension account and pension contributions would be deducted from their wages every week or month. If an employee did not want to join, they would be able to opt out. 

The views on automatic enrolment were explored by prefacing questions with the description of automatic enrolment presented above and followed by an introductory statement of the form: 

3.1 Employers' views on automatic enrolment

Membership were the most supportive of the idea and felt it a good idea for employees to periodically reconsider joining a pension scheme to capture individuals who opt out but whose circumstances later change. Critics of re-enrolment thought that employees would opt out for personal or financial reasons and would consider this to be an intrusion that could potentially strain employer-employee relations.

The Pensions Commission's proposed time frame of three to five years was acceptable to those in favour of re-enrolment. Those critical of the idea felt that if re-enrolment was to be implemented, the time frame should be longer than ten years.

It was a strongly held view across employers that automatic enrolment should start from the age of 16, or whenever a person started their first paid job. Employers were of the opinion that employees who had been earning before they were 21 were likely to opt out of a personal account scheme if they had become accustomed to the money in their net pay. However, a few employers were in favour of a minimum age threshold of 21, particularly those in the retail sector who tend to have a concentration of staff under 21 who fill roles with a high turnover.

Employers were largely ambivalent towards the suggested income eligibility criterion of £5,000 because this would apply to such a small proportion of their employees. Employers felt that employees earning less than £5,000 should not be excluded from the opportunity to save and should be allowed to join the scheme voluntarily.

The Pensions Commission's report included, among other things, a recommendation for the establishment of a National Pension Savings Scheme (NPSS), into which individuals would be automatically enrolled, but with the right to opt out. Employees would be automatically enrolled into a personal pension account and pension contributions would be deducted from their wages every week or month. If an employee did not want to join, they would be able to opt out. The Pensions Commission also recommended that employers would be able to apply for exemption from the NPSS where their own pension scheme arrangements meet certain minimum criteria. 10 Employer views about the concept of automatic enrolment were explored by prefacing questions with the description of automatic enrolment presented above and followed by an introductory statement of the form:

10 The broad criteria laid down by the Pensions Commission include: the employer’s own scheme would need to have an employer contribution and a total contribution at least as good as, or better than, an NPSS after taking account of scheme charges. Employers would also have to automatically enrol all eligible employees into this scheme.
‘The Government is interested in exploring employers’ views on the idea of automatically enrolling people into some sort of a state co-ordinated personal or individual pension account. These personal or individual accounts could take a number of forms and have a range of different features with the State playing various roles.’

The concept of automatic enrolment was explored in advance of exploring views of a requirement for a minimum employer contribution, employers’ reactions to a minimum employer contribution are covered in Chapter 5.

Overall, reactions to the idea of automatic enrolment were positive. Employers supported the idea because they recognised that there was a ‘pensions crisis’ in that the public were not saving enough for their retirement and they attributed this partly to a lack of pension uptake. Automatic enrolment was perceived as a measure which would help address the UK’s under-saving problem. Support for automatic enrolment was strong across all types of employers. The reasons for this were:

- Automatic enrolment will encourage saving
- It will make pension uptake easier for individuals
- It will help to combat inertia.

3.2 The administrative impact of automatic enrolment

However, concerns existed in relation to any new administration created for businesses as a result of automatic enrolment. Employers with administrative concerns fell into three groups, linked to both current pension scheme membership levels and employer size.

**Smaller employers** (but not necessarily micro-employers) were concerned that any new administration could be costly. Employing staff was already considered administratively difficult and time consuming because of regulations such as maternity leave, paternity leave and sick pay. They thought that automatically enrolling staff might involve extra costs in terms of staffing, time and software. However, micro-employers indicated that any new administration for automatic enrolment would be minimal because staff numbers were so small and that new administration could be passed onto their accountant.

‘I don’t mind, I would do the administration with it. There would be no problem whatsoever with me taking the money out of the girls’ wages because it would just literally be probably an extra £5, £10 a month for the accountant for her time. I would do it gladly.’

(1-4 employees, services, North England, no employer contribution)

Nevertheless, across all small employers (fewer than 50 employees), there was a strong view that automatic enrolment must be made easy to manage.
Employers with low pension scheme membership levels, in particular those with a medium to large number of employees, were concerned that the administrative burden would be great. These employers were concerned that any sudden surge in membership would be a burden for employers, both in terms of cost and time. They felt additional staff would be necessary to set up and administer automatic enrolment.

Conversely, employers already administering a pension scheme with a high membership level felt that the administrative impact of automatic enrolment would be neutral as a result of the current high membership levels of their schemes, and that their existing administration set-up would be able to cope with any additional work.

‘I mean it’s only just the same as really what we are doing now: we are taking a fixed amount out a month to put into their plan. I can’t really see it would affect us dramatically.’

(1,000-4,999 employees, manufacturing, Midlands, employer contribution)

Employers with a high turnover of staff/large numbers of temporary staff were also concerned about any new administration created as a result of automatic enrolment. Regular new staff, in large numbers, meant automatic enrolment could be an ongoing burden on administration. They, therefore, suggested that a qualifying period, before automatic enrolment occurred, would be necessary in order to protect the employer from excess administration. The proposed duration of this qualifying period varied between three and six months.

‘If you look at where our labour turnover is very high it is down in the unskilled categories, and you would need to anchor that process to stop us constantly having to put people onto schemes and do transfers to other companies. That would put an enormous load on the company so there’s got to be a qualifying period to stop there being too much work for us.’

(250-999 employees, manufacturing, Midlands, employer contribution)

3.3 Employers’ views about re-enrolment

The Pensions Commission’s report also suggested re-enrolment in cases where employees have opted out. Employers were asked about the concept of re-enrolment by seeking views about the following statement:

‘Re-enrolment would mean that anyone who had chosen to opt out of the scheme would be automatically re-enrolled at a later date with the option to decide to opt out.’

Re-enrolment received mixed views. Supporters of re-enrolment felt it would encourage employees who had opted out to reconsider their choice periodically and think proactively about pension saving. Those with high levels of pension scheme membership were the most supportive of the idea and felt this would help the scheme capture individuals who opt out but whose circumstances later change.
Employers with high pension membership levels thought that as they already re-contact non-members this would not be an extra burden.

Critics of re-enrolment felt that employees who opted out would do so for personal or financial reasons and should not be made to reconsider this choice and to actively opt out again.

‘If you’ve opted out you obviously don’t want to be in it. Maybe there should be the option of being able to opt back in but I don’t think it should be automatic.’

(1-4 employees, retail, Midlands, no employer contribution)

Employers who were not in favour of re-enrolment were also concerned that it could strain relations between the employer and the employee, such that employees who had opted out would consider re-enrolment a hassle and may resent the employer for this intrusion.

The Pensions Commission’s proposed time frame for re-enrolment (three to five years) was generally considered to be acceptable by those employers that were positive about the idea of re-enrolment. Employers that were critical of the idea thought that if re-enrolment was to be introduced the timescale should be lengthened to ten years.

3.4 Eligibility

This section looks at employers’ attitudes towards the proposed eligibility criteria for automatic enrolment into personal accounts. Employers’ views were sought in relation to the idea that only those employees over 21 years of age and earning over £5,000 would be automatically enrolled into personal accounts11.

3.4.1 Identification of eligible employees

Interestingly, employers generally assumed that identification of employees eligible for enrolment into personal accounts would be undertaken by the Government and would not be an administrative task of the employer. Employers suggested eligibility would be linked to National Insurance numbers or P45 forms.

‘Who’s going to keep tabs on all this? I assume it is going to be the Inland Revenue, by means of their National Insurance number.’

(1-4 employees, service, Wales, no employer contribution)

When the administration of identifying eligibility themselves was explored, employers were anxious that mistakes could be made on eligibility and that this would be an additional layer of bureaucracy for which they would become responsible. Simplicity

11 The Pensions Commission (November 2005) proposed that only those employees over 21 years of age and earning over the primary threshold (£4,888 at the time of research) be eligible for automatic enrolment into an NPSS.
of administration was favoured, with some employers suggesting removing the eligibility criteria if it was going to be a requirement that employers identify employees eligible to participate in the proposed scheme.

3.4.2 Views about a minimum age requirement of 21 years old

There was a strongly held view across the range of employers that automatic enrolment should start from the age of 16, or whenever a person started their first paid job. Employers were of the opinion that employees who had been earning before they were 21 were likely to opt out of a personal account scheme if they had become accustomed to the money in their net pay.

‘If you allow people to start work and it’s not an issue that comes up until 21, then they are already used to not being in it. I wonder whether it would be best to get them into the thinking straight away.’

(250-999 employees, manufacturing, Midlands, employer contribution)

Furthermore, employers indicated that young employees who did not go onto further education had a lower long-term earning potential and, therefore, the additional contributions were crucial in order to provide for a healthy pension.

A few employers were in favour of a minimum age threshold of 21, these employers were concentrated in the retail sector. This was because retail has a concentration of staff aged under 21 who fill roles which have a high turnover. Lack of loyalty meant that these employers were unwilling to deal with either the administration or any employer contribution for these members of staff.

3.4.3 Views about a minimum earnings threshold of £5,000

Whilst employers recognised that the threshold of £5,000 would make some employees ineligible for automatic enrolment into a personal account (e.g. part time workers), there was a view that this would apply to such a small proportion of employees that they were largely ambivalent towards the suggested income eligibility criterion. However, despite this ambivalence, concern was expressed for employees earning under £5,000. Employers were concerned that individuals earning less than £5,000 should not be excluded from the opportunity to save and felt that all employees should be eligible, regardless of earnings, either on a voluntary basis or through automatic enrolment. On the other hand, employers also wondered whether employees earning around the £5,000 threshold would be able to afford to make any contributions and would, therefore, be likely to opt out.

Employers did query what employer responsibilities would be to employees earning less than £5,000 per annum but having a second job which raises their total earnings to more than £5,000 per annum.
4 Employers’ views on the level of contributions

In this chapter, employers’ views about the proposed level of contributions for employees, employers and the Government are considered. The chapter concludes with an exploration of employers’ views on the idea that contributions would only be made on banded earnings between an upper and lower threshold.

Summary

Views on the level of a minimum employer contribution varied according to whether or not employers felt they were able to absorb any additional costs through profits or increased prices and whether they already contributed to a pension scheme.

Employers that were not making a contribution to a pension scheme but said they were able to absorb the additional costs through profits, considered that the Pensions Commission’s recommendation of a three per cent minimum employer contribution was acceptable. Employers already making a contribution at or above this level, thought that the contribution level should be higher in order to help employees generate adequate pension savings for retirement.

Considering the sample as a whole, those who tended to express concerns about a minimum employer contribution of three per cent were mostly concentrated among smaller employers and employers that do not contribute to a pension scheme. These employers felt that they could neither absorb the costs through profits or pass them on through prices. Some did suggest that they could afford a one per cent or two per cent contribution, providing it was phased in over time.

The Pensions Commission’s recommendation of a four per cent employee contribution was regarded as acceptable for average income employees. Employers of low paid workers expressed concerns that this would be too high for the employee to manage; employers of high paid workers thought the level may be too low to create sufficient retirement savings.

Continued
There was a general consensus that the balance between the Pensions Commission’s proposed levels of employee and employer contributions was acceptable.

There was some surprise that the Government’s contribution would be one per cent. Some employers questioned whether a one per cent contribution from the State was a significant enough incentive to encourage saving for retirement.

There was general support for the proposal of employer and employee contributions only being made on earnings between a lower and upper threshold of around £5,000 and £33,000.

4.1 Employers’ views on the level of employer contribution

The Pensions Commission recommended a minimum employer contribution of three per cent. This section of the report considers employers’ views on the proposed level of contributions. Employers’ responses to a requirement for a minimum employer contribution of three per cent are explored in detail in Chapter 5.

Employers’ views on the level of a minimum employer contribution varied according to whether or not employers felt they were able to absorb any additional costs through profits or increased prices and whether they already contributed to a pension scheme.

Employers already making a contribution at three per cent or above to a pension scheme, considered the Pensions Commission’s recommended minimum employer contribution level of three per cent to be low and were concerned that an employer contribution would need to be greater than this in order to create adequate pension savings for retirement.

Employers that were not making a contribution to a pension scheme, but who felt that this could be managed within their current profit margins, were generally comfortable with the idea of a proposed contribution level of three per cent.

Considering the sample as a whole, those who tended to express concerns about a minimum employer contribution of three per cent were mostly concentrated among smaller employers and employers that do not contribute to a pension scheme. These employers felt that they could neither absorb the costs through profits nor pass them on through prices. Some did suggest that they may be able to afford a lower level of contribution – between one and two per cent – provided it was phased in over time but remained anxious about the impact of this on their business.

‘Three per cent is high and could lead to some opposition here. We can get away easily with one per cent and probably two per cent, but it would still be a bit on the high side.’

(1-4 employees, retail, Midlands, no employer contribution)
4.2 Views about the level of employee contributions

The employee contribution recommended by the Pensions Commission (four per cent contributions from employee’s pre-tax pay plus one per cent tax relief) was generally regarded as acceptable for average income employees. However, those employing low paid employees held strong concerns that this level of pension contribution would be too high for employees to manage, particularly staff that they perceived were already living ‘hand-to-mouth’. Consequently, employers predicted that low paid employees would generally opt out of any proposed pension scheme, for financial reasons.

‘I really think, the sorts of people I’ve employed, even five per cent of their wage is more than they can afford. They have weeks when they’re paid on a Friday, they come in on a Monday and they haven’t got any money when a van comes round with the sandwiches on or anything like that.’

(5-49 employees, manufacturing, Wales, no employer contribution)

Employers of better paid staff in white collar/professional occupations felt that the level would be generally acceptable for employees. Similarly, employers that had pension schemes in which employees already paid four per cent or more, felt the proposed level to be acceptable. Indeed, these employers were concerned that even a five per cent contribution would not create sufficient savings to provide an adequate pension.

4.3 Views on the overall balance of contribution levels proposed by the Pensions Commission

There was a general consensus that the balance between the Pensions Commission’s proposed levels of employee and employer contributions was acceptable. Those employers that were against the idea of an employer contribution also felt that it was important for the employee contribution to be higher than the minimum employer contribution as a means of reflecting the greater responsibility of the individual towards saving for retirement.

In contrast, there was some surprise that the Governments’ contribution would only be one per cent, in the form of tax relief, a view that was held across all employer types and sizes.

Both the employer and the employee contributions, it was suggested, should receive tax relief as a means of demonstrating greater Government commitment to the proposals and to act as an incentive for making both employer and employee contributions.

‘If you want people to save for old age then, you have to make it tax exempt – it seems to be remarkably simple!’

(5-49 employees, other, South England, no employer contribution)
4.4 Views about contributions between the lower and upper earning thresholds

The Pensions Commission suggested that both employer and employee contributions would only be made on gross earnings between two thresholds. In this research employers were asked their views on contributions only being made on employees’ earnings between £5,000 and £33,000\textsuperscript{12}.

There was general support for contributions to be made only on earnings between the lower and upper thresholds, although there were queries raised about the reasons for these particular limits, particularly about the lower threshold. Employers questioned the basis on which these decisions had been made, anticipating that low paid workers would need additional support in saving, with contributions (employer and employee) being paid on all of their income, including the first £5,000. However, they recognised that this was perhaps a nicety as they predicted that low paid employees would opt out of the scheme anyway.

\textsuperscript{12} The Pensions Commission (November, 2005) actually proposed that contributions should be made on earnings between the primary threshold and upper earnings limit which were £4,888 and £32,760 respectively at the time of research. For the sake of simplicity these figures were rounded up.
5 Employers’ likely responses to a three per cent minimum employer contribution

In this chapter, employers’ views about their likely responses to a minimum employer contribution of three per cent are explored. Employers reacted to the proposal in a range of ways and considered a number of different strategies for dealing with an employer contribution for their business. This is discussed in relation to the type and size of employer. The chapter ends with a discussion of the impact of a minimum employer contribution on employers that are already making contributions to a pension scheme.

Summary

Employers were asked to consider how their business would deal with a minimum employer contribution of three per cent. The three most salient strategies were:

- The additional costs would be absorbed by the employer through profits. Typically, these were employers with 250+ employees operating in the service sector where profit margins were described as ‘high’, and employers already contributing to a pension scheme at, or above, the level of three per cent

- Costs would be passed on through prices, a view that was held by small and medium-sized employers that either did not wish to absorb the additional costs through profits or considered that their market position was such that they would be able to pass on the costs through prices without affecting their market share

Continued
• Small and medium-sized companies that did not consider that they had the options of absorbing the costs through profits or of passing them on through prices considered that **passing on costs through to wages** was their most likely course of action.

There was also some limited mention of the following strategies:

• A few employers, particularly those concentrated in the manufacturing/retail sector mentioned that they may **encourage employees to opt out of personal accounts**

• Some small and medium-sized employers who were competing in a very competitive global market or with illegal traders, indicated that they may **reduce staff, reorganise staff to work part-time hours or employ staff on a freelance basis**. A few of these employers mentioned the possibility of **business closure**.

Employers currently operating pension schemes with an employer contribution of three per cent or more reported that they were likely to apply for exemption from any new pension scheme arrangements as they viewed their pension scheme as an important recruitment and retention tool that they would want to keep. There was very little evidence that these employers would ‘level down’ their existing schemes in response to personal accounts.

### 5.1 Employers’ likely responses to a three per cent minimum employer contribution

When presented with the idea of a three per cent minimum employer contribution, as recommended in the Pensions Commission report, employers were asked to consider how they might respond and the potential impact of a three per cent contribution on their business. Employers reacted to the three per cent contribution in a range of ways. The three most salient strategies were:

• The additional costs would be **absorbed by the employer through profits**

• The additional costs would be **passed on through an increase in prices**

• The additional costs would be **passed through to wages**.

There was also some limited mention of the following strategies:

• A few employers mentioned encouraging employees to **opt out of personal accounts**

• Some small and medium-sized employers indicated they might deal with additional costs by **reducing staff or restricting business growth**. A few of these employers mentioned the possibility of **business closure**.
5.1.1 Absorbing the costs of a minimum employer contribution

Employers that were able to absorb the costs of the three per cent minimum employer contribution were those where profit margins were high, the market continued to be buoyant or they were already making a pension contribution at, or above, the three per cent level. In general, these tended to be larger employers (250+ employees) operating in the service sector, although micro and small employers operating in white collar/professional sectors were also represented in this group. Although the effect of absorbing the additional costs of pension contributions may result in lower profits, these employers did not consider this to be a significant issue.

However, the issue of continued competition and some concerns about reducing profit margins meant that not all of these employers saw themselves as continuing to absorb these costs in the longer term. Where employers were faced with increasing foreign competition, the view was that they might, in time, move to employing staff abroad. In doing so they would reduce their cost base and maintain both their prices and their profit margins.

5.1.2 Passing additional pension costs on through prices

Employers that were not able, or did not wish, to absorb the additional costs of a minimum employer contribution considered that they would either pass the additional costs on through an increase in prices, or through to wages.

The employers that were able to pass the additional costs on through prices tended to be those where mark-ups and profitability were reasonably high.

‘The company will increase the prices, to the extent it can… It will try to absorb costs.’

(50-249 employees, service, Wales, no employer contribution)

For smaller employers operating in the quality/luxury goods sector or who were offering high value services, the view was that the market was sufficiently buoyant for them to pass all of the additional costs on through prices. They took the view that a reduction in profit would impact on the owners/shareholders, and therefore, it was preferable to pass on the costs rather than reduce their overall profitability.

Medium and large employers also tended to take the same view, where they felt that their profit margins were reasonably safe. They too thought that their market position meant that for the particular goods and services they sold they could largely deal with a minimum employer contribution by passing costs on through increasing prices.

However, there was some concern expressed by larger companies that were operating in the global arena about remaining competitive with foreign competition. They felt that the degree to which they could pass on additional cost through prices was limited and they would, therefore, have to look at a combination of passing some costs on through prices and absorbing the remainder through a reduction in profit margins. This was of particular concern to listed companies that had to answer to their shareholders.
5.1.3 Passing additional pension costs through to wages

Passing additional pension costs through to wages was the third major strategy that employers considered that they might use in dealing with the additional costs of a minimum employer contribution.

Small and medium-sized companies that did not consider that they had the options of absorbing the costs of a minimum employer contribution or of passing them on through prices considered that passing costs through to wages was their most likely course of action. Employers indicated that this could be achieved by offering their staff lower wage increases. Others suggested that they would present the option to employees of either retaining their existing wage and not receiving an employer contribution to their pension scheme, or having a pension scheme with a three per cent employer contribution and an equivalent reduction in wage. While employers did not voice any concern about whether this may be contractually problematic, they suggested that they would simply explain to staff that they were still receiving their salary, but in a different way.

‘Well, the business would respond, if it was compulsory that three per cent has to go in, well, then the salary would be reduced by three per cent, because, as I’d explain, there is an economic salary which can be afforded.’

(1-4 employees, service, Wales, no employer contribution)

There was also some limited mention of the following strategies.

5.1.4 Encouraging employees to opt out of personal accounts

Some employers in the manufacturing and retail sectors said they would consider a combination of wage trade-offs and encouraging employees to opt out as a strategy for dealing with a requirement for a minimum employer contribution of three per cent.

It was also apparent that employers that were opposed to the notion of making an employer contribution to a personal account would encourage employees to opt out. They considered that this might be accomplished by suggesting wage trade-offs or by indicating that any additional costs to the business might result in the business down-sizing. Employers thought that staff would be happy to opt out if business survival depended on it.

5.1.5 Restructure/reduce workforce

Some, generally small and medium-sized employers, felt unable to pass on costs using the three main strategies described previously. These employers tended to be those operating with very small profit margins, or who were competing in a very competitive global market, and felt that they were unable to pass additional costs on through prices and wages were low so that wage trade-offs would be difficult to achieve. For these employers, the possible responses they mentioned were to cut staff numbers, reorganise staff to work part-time hours or employ staff on a freelance basis. One small employer felt that a three per cent minimum employer contribution would mean the closure of the business.
Some small businesses that were competing with illegal traders (e.g. cash-in-hand businesses) or foreign companies (with lower overheads) felt that employment costs were increasingly disadvantaging their market position. They too said they would have to consider whether they could sustain the business in the longer term.

‘We obviously get foreign companies coming in and tendering for our work and if they don’t have the same costs then they will have a competitive advantage.’

(250-999 employees, other (construction), Scotland, employer contribution)

5.2 The impact of personal accounts on employers already contributing to a pension scheme

With the possible introduction of a minimum employer contribution of three per cent, employers with more generous schemes might be tempted to ‘level down’ their existing pension schemes.

Overall, there was very little evidence that employers would level down their existing schemes, although it was suggested that ‘other’ employers may consider this as an option. Offering a competitive remuneration package as a means of attracting and retaining employees was mentioned as a key reason why employers would not do this.

Employers operating pension schemes with contributions at, or greater than, three per cent were of the opinion that they would apply for an exemption because they assumed their existing scheme would most likely be more generous in terms of overall contribution level and also be administratively cheaper than one provided by the State. They said that encouraging staff to join their own company scheme would encourage staff loyalty and retention.

‘We already offer benefits which are at least as good as are being proposed. I guess the risk is that pension provision will be averaged down to the new level which would disadvantage people in better quality schemes but you do have to, as an employer, provide competitive packages which will attract the right sort of people.’

(1,000-4,999 employees, manufacturing, North England, employer contribution)

Current schemes were generally considered to be affordable, even with the higher take-up rate that would accompany automatic enrolment. However, one employer in the study did suggest they would have to review the contribution level of their current scheme in the long term, if the minimum employer contribution came into force.
6 Employers’ views on employee reactions to personal accounts

This chapter considers employers’ views about how employees will react to the concept of personal accounts in terms of perceived acceptability, likely opt out rates and the possible impact of a personal account scheme on salary expectations and staff retention. The chapter finishes with an exploration of employers’ views toward portability and liquidity.

Summary

Employers thought that employees who recognise the need for saving for retirement will support the scheme and automatic enrolment will help encourage saving.

Employees most likely to opt out were considered to be: those unable to afford it; those with other spending priorities (particularly young people); those with alternative arrangements; and employees who do not wish to be involved in a scheme that is seen to be Government-run.

Employers were of the view that a pension scheme was not, in itself, a key to staff retention but may be a deciding factor when making a decision between employers.

The idea of a portable pension account which employees would take with them when they moved employers was strongly supported across all employers in the research. Employers described it as ‘vital’ for a National Pension Savings Scheme (NPSS) because it would encourage employees not to opt out of the scheme.

Employers generally felt that the option of liquidity (allowing employees to access the money in their pension for reasons other than retirement) would undermine the purpose of the scheme, reduce the value of employer contributions and increase administrative costs for the employer.
6.1 Employers’ views of employee responses to the concept of a personal account pension scheme

Employers suggested that employees will be mixed in their views towards a personal accounts scheme. Employers thought that employees who recognise the need for saving for retirement will support the scheme and automatic enrolment will help encourage saving. Specifically, employers felt that employees who will be in favour of personal accounts will be those who perceive that they can afford to make pension contributions but whose employer does not provide a pension scheme or does not make a contribution.

By contrast, employers also thought that employees who do not wish to contribute to a pension scheme because they have made alternative arrangements, or feel they cannot afford to save in a pension scheme, will oppose automatic enrolment, perceiving it as a form of ‘coercion’. Employers also thought that these employees would view re-enrolment as irritating.

Employers were also of the view that some employees would perceive a pension scheme that was being introduced by the Government as another form of taxation which might not perform as well as alternative investments. Employers felt that if these employees were to be persuaded to contribute to such a scheme, some form of guaranteed return on their investment would be required.

6.2 Which employees will opt out of personal accounts?

Primarily, employers thought that employees who would opt out of a personal account would do so for the following reasons:

- They were in receipt of low pay
- They had other spending priorities, a factor that was thought to apply particularly to both younger employees as well as employees receiving low pay
- They had debts, with student debt being particularly mentioned:
  
  ‘I can understand the financial pressures of not wanting to put money in at an early stage, and I know that’s why people don’t do it.’

  (1,000-4,999 employees, other, North England, employer contribution)
- Older employees may have other pension arrangements already in place, or feel it is too late to begin saving
- They had made alternative arrangements for saving for their retirement
- They were contributing to an employers’ pension scheme that was more generous
- Employees who do not agree with automatic enrolment or who have high levels of Government mistrust might also opt out.
6.3 The potential impact of personal accounts on salary expectations and staff retention

Employers were asked if they expected the proposed personal accounts scheme to impact on salary expectations or retention of staff. Some employers also raised these issues spontaneously.

Employers of low paid workers expressed the concern that if staff saw a four per cent reduction in their net pay as a result of their employee pension contributions, this would impact on their salary expectations. They thought that employees would be unhappy at the reduction in their net pay, regarding the contribution as a tax rather than money which they were personally saving. Conversely, employers felt that staff in white collar/professional roles would not expect a pay increase although they may find the decreased net pay initially difficult to deal with.

There were mixed views in relation to the impact of personal accounts on staff retention. Employers were aware that modern increased job mobility meant that retention of staff was more difficult than in the past and that a pension scheme, per se, would not be a means of retaining staff. However, it could ‘tip the balance’ in cases where employees were making a decision between different employers.

‘We would actually prefer a situation where it was higher than the potential three per cent. The reason for that is that we are operating in a competitive environment for recruiting individuals, particularly in the lower end, and if we are offering a benefit that other employers aren’t then, from an economic [standpoint] it puts us at a slight advantage.’

(1,000-4,999 employees, other [leisure], Midlands, employer contribution)

6.4 Portability

The idea of a portable pension account which employees would take with them when they moved between employers was strongly supported across all employers in the research. Employers described it as ‘vital’ for an NPSS. Employers recognised that higher job mobility means employees who are saving for retirement often have several pensions because it is too costly for the employee to amalgamate them.

‘I mean the big positive about it is the portability. I like the idea of the fact that an employee carries around a pension scheme from one employer to the next. Everyone has at least five jobs in their life time now so it’s a good thing.’

(50-249 employees, retail, South England, employer contribution)

Employers also indicated that a portable pension would be both popular with employees and would further encourage individuals to not opt out of the scheme.
6.5 Liquidity

The concept of ‘liquidity’ of pension savings was explored with employers. This concept is that individuals would be able to take money out of their pension under special circumstances such as for a house deposit or in times of hardship. This was presented as an option under consideration.

Overall, there was little support for the feature of liquidity within personal accounts. This was because liquidity was seen to undermine the purpose of pensions overall, and the purpose of personal accounts.

‘It’s down to the employee if they want to look after their future but if this money is there, it could be misused. For example, you’ve got a pension scheme, and at 35 you’ve not looked after any money. Then they allow you to pull this money out so you can buy a house. Defeats the object of saving for a pension.’

(5-49 employees, service, Midlands, no employer contribution)

References to ‘temptation’ were made as employers suggested the money would be an easy solution during times of hardship. Employers felt that individuals would be unlikely to ‘top up’ contributions if they were taken out of the account and therefore, the pension may be of little value by the time they reach retirement. Ultimately, employers felt liquidity would make a system of personal accounts an ineffective retirement saving tool.

Liquidity was also criticised on the basis that it undermined the employer contribution. By allowing employees to use the employer contribution for purposes other than retirement saving, employer contributions were meaningless and employer administration was made a ‘waste of time’.

There were some employers that were open to the idea of liquidity but only in tightly restricted circumstances, such as property investment.
7 The process of introducing personal accounts

This chapter examines employers’ views on issues related to the introduction of a system of personal accounts. In particular, this section will explore employers’ views on support needed for any additional administration if the proposals were implemented. It then discusses information needs identified by employers in order to understand any new requirements and to provide employees with required information. Amelioration mechanisms are explored, together with employers’ views on how the proposals could be phased in. The chapter concludes with a consideration of employers’ views on compliance.

It is important to highlight that employers found these aspects of the interview difficult to respond to. This is because personal accounts were being discussed as a concept, with employers finding it difficult to envisage how exactly their business would be affected and consequently, how they would like a possible new pensions system introduced.

Summary

The level of activity of employers’ current pension set-up was central to employer perceptions of support needed with administration in order to implement the proposals. Employers with a pension scheme with a high level of membership were confident that any additional administration could be handled under their current administrative arrangements. By contrast, employers with a pension scheme with low membership and those without a pension scheme raised some concerns about new administration that might be required.

Employers expected to receive information about the new scheme and the associated regulations from the Government. However, employers also indicated they would take advice from accountants, independent financial advisers, trade unions and industry bodies.

Continued
Employers with an existing pension scheme that had low membership levels said that they would be reluctant to provide information to employees, unless it involved passing on a standard information pack provided by the Government. Inexperienced in pensions, these employers felt ill-equipped to give information which they perceived as ‘giving advice’ and were anxious that they may not do this well.

A good helpline service and online facilities for managing personal accounts and for gaining information were considered important. Employers felt that both the employer and employee should have access to personalised information about any new pension arrangements.

Employers with concerns about a three per cent minimum employer contribution felt the scheme should be phased in by employer contribution level. These employers felt that raising the contribution level over time from ½ per cent to three per cent would allow for their financial planning to take into account the costs.

Smaller employers (fewer than 50 employees) suggested that the arrangements should be phased in by employer size, with larger employers first. In contrast, larger employers felt that all employers should become eligible together to ensure that some businesses did not gain a competitive advantage during any phasing-in process. However, larger employers indicated that if the arrangements were phased in by employer size they would understand why this was necessary.

Introducing personal accounts on a voluntary basis was felt to be a poor option as it would result in a patchy approach to pension provision.

There was general agreement that strong mechanisms would be necessary to ensure compliance with the new scheme. Fines, or the threat of prosecution, were suggested as ways of ensuring compliance. However, employers felt that incentives such as reductions in employer taxation for complying with the introduction of personal accounts would be more effective than penalties.

7.1 Administration support needs

The level of activity of employers’ current pension set-up was central to employer perceptions of support needed with administration in order to implement the proposals. Employers with a pension scheme with a high level of pension membership had few concerns and were confident that any additional administration could be handled under their current administrative arrangements. By contrast, employers with a pension scheme with low membership and those without a pension scheme raised concerns about new administration that might be required. New support needs identified included:
Employers with low pension membership levels and in particular, those with a medium to large number of employees, indicated that **additional staff** would be necessary to set up the administration of automatic enrolment and to manage it. **Training of existing human resources staff** would be necessary in addition to new staff.

**Payroll software updates** would be necessary for the processing of personal accounts for employers of all sizes, with small employers expecting **vouchers to reclaim this cost from the Government**.

### 7.2 Information needs

During the interviews, employers were asked about any information needs they could foresee if the proposals were implemented, how they would like to receive this information and from whom they would expect to receive it. In the main, employers expected to receive information about the new scheme and the associated regulations from the Government, although there were some variations according to employer size and current pension set-up.

**Small employers with a pension scheme that had low membership levels** thought they would seek advice from their accountant on how to interpret the legislation and implement it. **Medium and large employers that had a pension scheme with low membership levels** suggested that information from the Government would be sufficient to comply with the new regulations.

**Employers of all sizes with a pension scheme** that had high membership levels suggested they would take advice from independent financial advisers and the providers of their company pensions. Familiarity with their current providers and utilising independent financial advisers meant these employers considered them a useful and trustworthy resource. However, employers were not clear what kind of advice they might need to discuss with them, but perceived them as a resource which would be useful for a wide range of advice needs.

> “Well we would probably go back to our financial advisers and ask ‘what are your recommendations?’ Because that was where we started with the other scheme you know, recommendations of a financial adviser who went off and did all the leg work and said this, this and this. They are very good.’

(1,000-4,999 employees, manufacturing, Midlands, employer contribution)

Small and medium employers also suggested they would also seek advice from trade associations or industry bodies on how to respond.

Employers were also concerned about the information and advice they might need to give to employees. Employers with lower pension scheme membership levels were reluctant to provide information to employees, unless it involved passing on a standard information pack provided by the Government. Inexperienced in pensions, these employers felt ill-equipped to give information which they perceived as ‘giving
advice’ and were anxious that they may not do this well. However, small employers felt that employees would ask for information and advice from the employer as these types of employers tended to be characterised by good rapport and a close relationship with employees. They were anxious that they would be ill-equipped to provide such information and advice.

A widely held view across all the employers was the need for access to personalised information for both employer and employee. Smaller employers were keen in particular to receive face-to-face information from Government representatives explaining the new proposals.

‘Face-to-face would be best. I’d prefer to speak to someone and have it all explained so I can ask questions.’

(1-4 employees, retail, North England, no employer contribution)

However, in this respect, a more broadly held view was the need for a good helpline service which was easy to use, efficient and where it was quick to speak to a representative.

Additionally, online facilities were generally felt to be essential for all aspects of managing personal accounts, but especially in terms of gaining information and presenting it to employees. Employers anticipated that being able to store information electronically would be more acceptable than paper equivalents as they were considered to be easier to read, store and implement the actions.

7.3 Phasing-in

Employers’ views on a range of possible options for introducing a new personal account pension scheme were explored. Employers’ spontaneous reaction to the idea of phasing-in was sought before a range of possible options on how any new scheme could be introduced was discussed. Options explored included:

• Whether employers would prefer the new scheme to begin on a set date or be phased in over a period of time
• Phasing in the scheme by new employees only with existing staff automatically enrolled later
• Phasing in by type of industry/phasing in by employer size (with small employers being the last to have to comply)/phasing in the three per cent contribution level over time
• Introducing the scheme initially on a voluntary basis before it is a requirement.

The possibility of phasing in new personal account arrangements was popular across employers. However, employer size and the perceived affordability of any new arrangements had an impact on their views:
- **Smaller employers** (fewer than 50 employees) suggested that the arrangements should be **phased in by employer size**, with larger employers first. In allowing smaller employers additional time to prepare, the disadvantages they felt they had as smaller businesses would be compensated for. However, **larger employers** felt that **all employers should become eligible together** to ensure that some businesses were not advantaged during any phasing-in process. Nevertheless, smaller employers were perceived to be at more of a disadvantage than larger employers, consequently if the arrangements were phased in by employer size, larger employers indicated that they would understand why this was necessary.

- **Employers of all sizes that had strong concerns about the cost of a minimum employer contribution** on their business, felt the scheme should be **phased in by employer contribution level**. Raising this level over time from ½ per cent to three per cent would allow for their financial planning to take into account the costs. Even so, employers were unclear as to whether phasing in personal accounts by gradually increasing contribution levels would be sufficient to alleviate the additional costs. Some larger employers that were concerned about the impact of the proposals on the economy, also mentioned that phasing in over time would be a sensible option as it would have the effect of lessening the impact on inflation. Employers were undecided as to whether both the employee and employer contributions should be phased in over time.

In order to help planning and preparation for the introduction of personal accounts, employers considered it was essential to be clear about the date from which the arrangements would apply. Employers suggested this would be similar to the tax simplification ‘A-Day’ or the ‘chip-and-pin’ deadline.

Overall, employers felt that introducing personal accounts on a voluntary basis initially would be a poor option as it would result in a patchy approach to pension provision.

> ‘No I can’t see the point in a voluntary set-up, it’s not meant to be voluntary anyway, it’s meant to be something you have to do. Who’s going to say “yes” anyway when it will cost them?’

(1-4 employees, retail, South England, no employer contribution)

### 7.4 Amelioration mechanisms

Towards the end of the interview, employers were asked for their views on what might help or enable them to implement the proposals if they were introduced. Views about amelioration mechanisms, or easements, to help or enable employers introduce the scheme were concentrated amongst the small employers, employers that had a low take-up of their current pension scheme and employers of all sizes that had concerns about the minimum employer contribution. These types of employers were keen to see some flexibility in the proposals to help them.
It was a widespread view amongst small employers that some form of flexibility would need to be provided for them in the proposals. As small employers, they felt disadvantaged compared to larger businesses and suggested the proposals could impact negatively on them. Proposed amelioration mechanisms included:

- Phasing in by employer size with smaller employers being the last to comply (see Section 7.3)
- Assistance/financial relief in lieu of any administration burden
- Redeemable vouchers to buy new/updated software.

‘If there was a cost involved in upgrading payroll software that could be met by the Government or the pension fund or whoever. Maybe they could provide you with, some kind of a voucher or something that would enable you to purchase the latest edition. That’s the sort of thing that wouldn’t make any difference to a big business but for small businesses it could make a real difference.’

(1-4 employees, service, Wales, no employer contribution).

- Tax relief to encourage compliance and reduce the impact of the additional costs involved
- Flexibility in relation to the level of the minimum employer contribution would be important. For example, employers only contribute when their profit margins rise above a set level. Although not a prevalent suggestion, this view was indicated by small employers who were concerned that they would not be able to absorb the employer contribution cost into their profits.

Employers with low membership of their existing pension scheme and employers that were concerned about the impact of personal accounts on their business were strongly in favour of the need for easements to assist with the introduction of the scheme. However, unlike small employers, medium and large employers of this type were not confident that their needs would be addressed sufficiently by Government. In the main, they felt that financial support would be necessary to assist them with both new administration costs and the minimum employer contribution. Phasing in by contribution level was also felt to be important to allow additional costs to be controlled and planned ahead.

7.5 Communicating to the public

High media coverage and public education was considered to be essential across all of the employers in the study.

‘I think what would be helpful would probably be some Government publicity so that employees in general understood what was happening and that it wasn’t just the company was that was forcing them to do something.’

(1,000-4,999 employees, other, North England, employer contribution)
Ensuring that the public understood the importance of the new scheme would assist with employer and employee relations when implementing the proposals. Employers were particularly keen that they did not want employees to misunderstand the new proposals and blame the employer if they were unhappy with the scheme.

7.6 Compliance regimes

The concept of compliance was introduced to employers by asking ‘what might encourage employers to comply with the new scheme?’. After spontaneous reactions, questions were then asked to gauge employers’ reactions to ideas such as financial penalties and improvement notices from a regulator.

There was general agreement across employers that strong mechanisms would be necessary to ensure compliance with any new scheme occurred. Fines, or the threat of prosecution, would make sure all employers complied, in the same way as currently operates for tax.

‘Same as if you don’t pay your taxes. There’s got to be a fine system and there’s got to be something so you know you’ve got to do it, even prison. It’s no different from paying tax contributions then is it?’

(1-4 employees, retail, Midlands, no employer contribution)

Employers often raised this idea spontaneously. Concern existed that employers who failed to comply would be financially advantaged and should, therefore, be prevented from evading their statutory responsibilities.

However, employers also suggested that incentives such as reductions in employer taxation for complying with the introduction of personal accounts would be more effective than penalties. In the same way, employers suggested that those that do not comply may lose staff and that this would work as an additional incentive to implement a personal accounts scheme.
Employers’ views of the different operating models of personal accounts

The Government is exploring a range of options as to how personal accounts might operate and this research explored employer views of different possible ways of implementing personal accounts. Three models were presented to employers. In the first model (Model A) employees would be automatically enrolled into a stakeholder pension scheme designated by the employer. In the second model (Model B) employees would be automatically enrolled into a personal pension account through a central clearing house. This central clearing house would be run by the Government or some other agency and would act as a new intermediary administering the collection of contributions. In the third model (Model C), employees would be automatically enrolled into a personal pension scheme run by a central administration agency. This could be privately run, run by the Government or some other agency. This is effectively the proposal put forward by the Pensions Commission Report – the National Pension Savings Scheme (NPSS). Further details of the models presented to employers are shown in Figure 8.1.

The chapter considers how employer attitudes to the models varied in terms of the issue of responsibility for choosing the providers. The chapter subsequently explores particular features of each model that employers perceived as important. Interestingly, employers’ reactions fell into two central concerns: minimum bureaucracy for both the employer and the Government and a desire for freedom from perceived liability for any decisions made.
Summary

Small and medium-sized employers, particularly those without a pension scheme or with a pension scheme with low membership levels, did not want a model where they had the responsibility of choosing a pension provider. These employers said they felt they lacked the confidence to make a good choice of provider and did not wish to take on any liability they mistakenly perceived might arise from this choice.

By contrast, larger employers, particularly those with an existing scheme with medium/high levels of membership, tended to favour Model A (a stakeholder pension scheme designated by the employer) as this was most similar to their current arrangements. These employers wanted to keep their existing scheme and were likely to apply for an exemption from any new pension arrangements.

Employers were negative towards the idea of a central clearing house as they saw this as introducing an unnecessary layer of bureaucracy and so were against this aspect of Models B (a central clearing house with employee choice of provider) and C (an NPSS). However, employers said they would support the idea of centralisation provided that it reduced costs for employers and improved the efficiency of the scheme.

Employers generally reported that they lacked confidence in the Government’s ability to organise and run a large organisation effectively. However, while there was a view that a private organisation would run a new scheme more efficiently, there were concerns, particularly from smaller employers, that such a scheme should not make any profits.

Employers, particularly small and medium-sized employers with a low take-up of their existing scheme, felt strongly that simplicity was important. These employers, therefore, tended to favour Model C (an NPSS) which was perceived as being the most straightforward. They also felt it would reduce administration and remove any employer liability which they mistakenly perceived would arise from choosing a provider.

Overall, all employers felt strongly that any money invested in the scheme should be ring-fenced and kept ‘safe’ from public spending or from supporting the cost of setting up and running a new agency.
Figure 8.1  Personal account operating models presented to respondents

Model A
Employees would be automatically enrolled into a **stakeholder pension scheme** designated by the employer with the option of an opt out.

- The employer would be responsible for selecting a provider
- The employee would choose the pension fund(s) they wish to invest in. However, if they do not choose a fund, their contributions would go into a default fund selected by the chosen provider
- The employer would be responsible for passing contributions to the provider
- All employers might need to do this including micro-employers (employers with fewer than five employees) who are currently exempt from the requirement to designate a stakeholder pension scheme.

Model B
Employees would be automatically enrolled into a **personal pension account through a central clearing house**. This central clearing house would be run by the Government or some other agency and would act as a new intermediary administering the collection of contributions.

- The employer would engage with the central clearing house as opposed to dealing direct with pension providers
- The employee would decide which pension provider they wish to be with. If they do not make a decision, they would be enrolled with a default provider selected by the clearing house
- The employee would choose the pension fund(s) they wish to invest in. However, if they do not choose a fund, their contributions would go into a default fund selected by the chosen provider
- The employer would be responsible for passing employer and employee contributions to the central clearing house that would then ensure that the contributions were transferred to the individual’s chosen provider.

Continued
Employers’ views of the different operating models of personal accounts

Figure 8.1  Continued

Model C

Employees would be automatically enrolled into a personal pension scheme run by a central administration agency. This could be privately run, run by the Government or some other agency. This is effectively the proposal put forward by the Pensions Commission Report – the NPSS.

- The employer would engage with the central administration agency as opposed to having to deal direct with a pension provider(s)
- The central administration agency would be responsible for central administration, pension investment and provision
- The employee would choose the pension fund(s) they wish to invest in. However, if they do not choose a fund, their contributions would go into a default fund selected by the central administration agency
- The employer would be responsible for passing employer and employee contributions to the central administration agency.

Overall, smaller employers, or those without a high level of pension membership, were in favour of Model C (automatic enrolment into a centrally administered NPSS) which was seen to remove employer liability and reduce administration. Larger employers with a high level of membership of their existing pension scheme were generally in favour of Model A (automatic enrolment into a stakeholder pension scheme designated by the employer) because this was most similar to their current pensions arrangements. These employers wanted to keep their existing scheme and were likely to apply for exemption from any new pension scheme arrangements.

8.1  Model A – automatic enrolment into a stakeholder pension scheme designated by the employer

Smaller employers (fewer than 50 employees) and medium-sized employers (50-249 employees) had strong concerns about this model because they wished to avoid any form of employer responsibility or liability which they mistakenly perceived would arise as a result of choosing a provider. In general, these employers felt that they lacked the understanding or confidence to make a good choice of provider and were concerned that they might let their employees down by choosing a product that performed poorly.

‘I am not interested in going to look for somebody to get a pension from. What if I pick the wrong one or whatever? No, I do not want that.’

(1-4 employees, retail, Scotland, no employer contribution)

They could not see any advantages in choosing a provider of a stakeholder scheme for their employees and felt that an increase in administration costs was implicit as they would have to take the time to choose a scheme and then liaise with the provider.
Across all of the small and medium-sized employers there was a concern that privately run stakeholder schemes would be seeking to make a profit from the introduction of this pension model and that this would have implications for the amount of money which goes into employees’ pension pots.

‘Stakeholders will be looking to make a profit, they need to pay their shareholders, their directors or whatever, that’s reducing ultimately the amount that’s left in the pot, so I think there should be one pot, try and minimise the administration that goes with it, as far as possible, so that nothing’s taken out.’

(5-49 employees, manufacturing, Wales, no employer contribution)

Smaller employers also felt they would not be as profitable as larger businesses for the pension providers which could result in preferential treatment for larger employers.

Any national scheme should, they felt, be exempt from charges and should not make profits for any private organisation so that all the money paid by employers and employees into the scheme is invested wholly in pension savings.

Positive reactions to the idea of automatic enrolment into a stakeholder pension scheme designated by the employer were concentrated amongst larger employers (250+ employees) currently offering a pension scheme with a medium to high membership. These employers suggested that the parallels with their current pension arrangements meant that this approach to a personal accounts scheme would result in less administration for the employer. Providers would be able to offer administration services and relieve some of the burden from employers. Furthermore, employers thought that this model – by offering a good stakeholder pension scheme – could engender some additional staff loyalty.

Good experiences with dealing with providers in the past meant that these employers felt confident that this system would work for other employers and would also allow a good choice to be made on behalf of their employees. In effect, the positive reaction to this model reflects the fact that these employers wished to retain their existing pension arrangements. Indeed, these employers indicated they were likely to apply for exemption from any new scheme.

Lastly, the one issue that all the employers in the study agreed upon was that this model involved the least Government involvement, which was seen positively. Negativity towards what was perceived to be Government bureaucracy was voiced in relation to both the idea of having some sort of a central agency to act as an intermediary (a central clearing house – Model B) and the idea of a centrally administered NPSS (Model C).
8.2 Model B – a central agency acting as an intermediary (a central clearing house) with employee choice of provider

Employers of all types and sizes were strongly negative towards the central clearing house model. This model was regarded as introducing an unnecessary layer of bureaucracy and cost. Although employers accepted that this model meant that they would not have to liaise with the providers themselves, they preferred the alternative solution presented in Model C – automatic enrolment into a centrally administered NPSS.

These negative feelings towards Model B reflected a general lack of trust in the Government to organise a large new agency, employers referring to the alleged failure of the Child Support Agency as evidence of this. Employers felt that there were many ways in which such an agency could go wrong and were concerned that the costs associated with setting up such a large agency would reduce the value of the pension contributions paid.

‘I am just a bit dubious about giving all the money to the Government and them spending it wisely. Because you know they will have armies of staff won’t they, doing this and doing that.’

(5-49 employees, service, North England, no employer contribution)

However, they also acknowledged that if centralisation reduced the overall cost to employers then such a model would be satisfactory, if it could be run in an efficient manner.

Employers indicated that the some sort of a central clearing agency would be more acceptable if it was run by an organisation other than the Government (such as the pensions industry) because they would have more confidence that it would be effectively run. However, employers generally did not want the pensions industry to profit from the introduction of such an approach to pension provision.

Additionally, there was a concern expressed by employers about how much choice over provider or product that employees should have. Although they accepted that a default provider would reduce the need to actively make a choice, they also thought that there should be some choice of provider available to employees. However, they also acknowledged that too much employee choice could put employees off such a scheme. Employers could not indicate how much choice they considered to be acceptable for employees.
8.3 Model C – automatic enrolment into a centrally administered National Pension Savings Scheme

Overall reactions to Model C, an NPSS run by a central administration agency, were largely positive, particularly from small employers (fewer than 50 employees), medium-sized employers (50-249 employees) and employers with a low take-up of their pension scheme.

This model was regarded as the simplest and most straightforward model for employer and employee alike.

‘I think I’d choose this one [Model C]. It’s all central and it just seems like the most straightforward.’

(1-4 employees, retail, Scotland, no employer contribution)

The advantages were perceived to be threefold:

• Not having to deal with a bureaucratic agency (as in Model B)
• Not needing to deal with providers (as in Model A) and
• Not having the responsibility for choosing a provider, a, particularly strong advantage for the smaller employers and employers with low membership of their existing pension scheme.

The main concerns that were raised were related to Government involvement in an NPSS and the effectiveness of a state co-ordinated scheme. Employers were particularly concerned that the money should be ring-fenced and kept ‘safe’ from public spending, or from supporting the cost of a new agency. Furthermore, there was some concern expressed about fund managers being paid for by the State. Employers felt that as the Government may not be able to afford the best fund managers, the scheme might be disadvantaged by being poorly managed.
9 Non-business employers

In addition to the interviews with employers, an additional eight interviews were conducted with people who employ an individual privately to provide a service in a non-business context. These, for example, would be people who employ a nanny or a gardener (and pay the employee more than £5,000 per annum).

This chapter outlines the views of ‘non-business’ employers towards the key aspects of the Pensions Commission’s proposals for personal accounts, focusing on automatic enrolment, the employer and employee contributions, likely responses to the proposals, new administration and the phasing in of the proposals. These individuals are included in the study because they could potentially be affected by future legislation.

None of the non-business employers interviewed offered a pension to their staff or had considered setting one up.

Summary

Non-business employers considered automatic enrolment to be a measure which would help address the UK’s under saving problem and would be good for employees generally, but there was widespread anxiety that any new administration may be difficult and time-consuming, they felt that employer involvement should therefore be minimal. Non-business employers were ambivalent towards the idea of re-enrolment.

Non-business employers were not overly concerned about the minimum employer contribution. They accepted the small additional cost providing eligibility remained above the proposed minimum of around £5,000.

Continued
It was a strongly held view that their employees were likely to opt out of the scheme. Three main reasons were offered as to why this group of employees were likely to opt-out: their employees were generally young and not interested in saving for retirement, these employees were generally supplementing household income or would regard pension contributions as too low to generate a good return.

Non-business employers found it difficult to predict what administration and information needs they may have on implementation of the proposals but indicated that there would need to be a telephone help line for enquires and seeking assistance. Easily available help, particularly in terms of dealing with the administrative aspects of any new scheme was felt to be important.

Similar to smaller employers, non-business employers did not want the responsibility of choosing a pension provider and felt they do not have the knowledge to do this. Consequently, Model A which proposed automatic enrolment into a stakeholder pension scheme designated by the employer was rejected by these employers.

Model C, a National Pension Savings Scheme (NPSS) was preferred by non-business employers because it was perceived to offer the least employer responsibility and administration.

A lack of trust in the government to run such a new agency effectively meant that non-business employers would not want the government to control or manage any new agency.

### 9.1 Views on automatic enrolment

Overall, reactions to the idea of automatic enrolment were positive but uneasy. Non-business employers considered automatic enrolment to be a measure which would help address the UK’s under-saving problem and would be good for employees generally, but they held strong concerns about their involvement administratively. Administration would add a layer of complexity to employment bureaucracy which was already a difficult and time-consuming task for non-business employers. Although positive about the scheme in principle, non-business employers did not want involvement in the administration.

‘It’s a great idea, people should have a pension. But I really wouldn’t want to be involved in it. I would rather I gave her the money and she sorted it out.’

(Non-business employer, Scotland)

Non-business employers were concerned automatic enrolment would create new and complex administration.

However, a few non-business employers with extremely strong concerns about the potential additional administration, suggested that they may reduce the hours of the employee so that their earnings fell below the £5,000 threshold.
Non-business employers were also ambivalent towards the idea of re-enrolment. Recognising that re-enrolment would incur additional administration for the employer, non-business employers felt that providing the administration of re-enrolment was not difficult, it was seen as a positive feature that would encourage individuals to periodically review their decision to opt out. The proposal for re-enrolment every three to five years was considered acceptable.

In summary, non-business employers were anxious that any new administration may be difficult and time-consuming, employer involvement should, therefore, be minimal.

9.2 Views on the minimum employer contribution

Overall, non-business employers were disgruntled at the suggestion of a minimum employer contribution but also expressed a resignation towards it.

‘I don’t think I would be very happy but you wouldn’t have a choice would you?’

(Non-business employer, Midlands)

Staff salaries were generally close to £5,000 per annum and therefore, the additional cost of an employer contribution would be low when paid on earnings above this. Non-business employers would, therefore, accept the small additional cost providing eligibility remained above the £5,000 threshold. Nevertheless, employers recognised that this amount would be small and queried the value of contributing such a small amount, suggesting it would not be worthwhile for the employee.

Affordability was central to the acceptability of the employer contribution. Where the service provided to the non-business employer was an expensive luxury, employers indicated that they might cease employing the individual, or reduce their hours to minimise the impact of the proposals.

It was also a strongly held view that their employees were likely to opt out of the scheme. The reasons for this view were threefold:

• The employee was young and not interested in saving for retirement as they were likely to have other saving priorities

• The employee was supplementing household income

• The employee would regard pension contributions as too low to generate a good return.
9.3 Views on the personal accounts operating models

Details of the operating models presented to non-business employers are shown in Figure 8.1.

Similar to smaller employers, non-business employers do not want the responsibility of choosing a pension provider. Consequently, Model A which proposed automatic enrolment into a stakeholder pension scheme designated by the employer was rejected. While non-business employers did not perceive litigation to be an issue, they were anxious that they would not know how to set up a stakeholder scheme or choose an appropriate provider.

**Compared to Model A, non-business employers preferred** Model B, the central clearing house with employee choice of provider. This was preferred because it removed employer decision making and responsibility, whilst adding employee choice.

As with the business employers there was, however, some negativity expressed towards Model B as it was seen to introduce an unnecessary layer of bureaucracy and cost for the Government. Although employers accepted that this model meant that they would not have to liaise with providers, the advantages were greater in Model C, the NPSS with a central administration agency and employee fund choice.

In addition, the concerns expressed about Model B were similar to the business employers. These concerns included: lack of trust in the government to organise a large new agency, a concern that payments could get lost within the clearing house and involve a process that would be difficult and time consuming for them to manage. They also expressed greater trust in the pensions industry to run the central clearing agency than the Government.

Model C, the NPSS with a central administration agency and employee fund choice was, overall, considered to be the best operating model because it was regarded as the simplest model for the employer and was the most similar to paying taxes and National Insurance.

‘[Model C] is very similar to where you pay your tax and National Insurance, you send it to the Government, pay it over to them.’

(Non-business employer, South England)

However, concerns were also expressed about Government involvement in a NPSS and the effectiveness of a state co-ordinated operating model. They preferred the concept of a not-for-profit organisation to run such a scheme, but not the Government.
In summary, a centrally administered NPSS was preferred by non-business employers because it was perceived to mean the least employer responsibility and administration. However, the strong lack of trust in the Government to run a new agency effectively meant that non-business employers did not want the Government to manage and control such a scheme, but would prefer a non-profit third party to do this.

9.4 Administration and information needs

Non-business employers found it difficult to predict what administration and information needs they would have on implementation of the proposals.

‘I mean, how do I know what paperwork will be sent to them?’

(Non-business employer, Wales)

Respondents indicated that there would need to be a telephone helpline for enquires and seeking assistance. Clear instructions about the processes involved would be essential to ensuring employers were able to comply with any legal requirements.

Non-business employers that indicated they did not use payroll software, were concerned that they would need to change the arrangements for paying their staff. Overhauling current systems was seen as burdensome and difficult.

Although the non-business employers had very little to say about amelioration mechanisms, or easements to help them introduce personal accounts, they nevertheless thought that there should be easily available help, particularly in terms of dealing with the administrative aspects of any new scheme.
10 Conclusions

Overall, the research revealed a wide range of views and reactions from employers towards the proposals. Although not the only factors, employer size and whether employers were currently making contributions to their employees’ pensions were key variables that affected and influenced views. This final chapter draws together the findings from the research, highlighting key issues and differences across employer types.

10.1 Business employers

Generally, the need for some sort of action on pensions seemed to be widely accepted, with respondents expressing fairly gloomy sentiments about the current level of pension saving in the UK. Views about employer responsibility in addressing under-saving varied according to employer size and whether the employer made a contribution to a pension scheme. Smaller employers (with fewer than 50 employees) and those not making a contribution held the view that the employer had a limited responsibility for pension saving, large employers and those making contributions perceived their own role to be more important.

Across all types of employers there was strong support for the principle of automatic enrolment. Employers felt this would encourage saving for retirement, increase the take-up of pensions and help combat inertia. However, concerns were expressed about the administrative impact and administrative costs of automatic enrolment by small employers, employers that employ large numbers of temporary staff or have a high staff turnover and employers that currently offer a pension scheme but with a low level of membership. In contrast, employers with high levels of pension scheme membership thought that the impact of automatic enrolment on administrative time and costs would be minimal or neutral.

Employers already making a contribution at three per cent or above to a pension scheme considered the Pensions Commission’s recommended minimum employer contribution level of three per cent to be low and were concerned that an employer contribution would need to be greater than this in order to create adequate pension savings for retirement. Employers that were not making a contribution to a pension
scheme, but who felt that this could be managed within their current profit margins, were generally comfortable with the idea of a proposed contribution level of three per cent.

Considering the sample as a whole, those who tended to express concerns about a minimum employer contribution of three per cent were mostly concentrated among smaller employers and employers that do not contribute to a pension scheme. These employers felt that they could neither absorb the costs through profits nor pass them on through prices. Some did suggest that they could afford a one per cent or two per cent contribution, providing it was phased in over time.

In relation to the minimum employer contribution, employers suggested strategies for dealing with this issue, three of which were most salient.

Firstly, employers suggested the additional costs would be absorbed by the employer through profits. Typically, these were employers with 250+ employees operating in the service sector where profit margins were described as ‘high’, and employers already contributing to a pension scheme at, or above, the level of three per cent.

A second strategy for dealing with the employer contribution of three per cent was to pass costs on through prices, a view that was held by small and medium-sized employers that either did not wish to absorb the additional costs through profits or considered that their market position was such that they would be able to pass on the costs without affecting their market share.

The third main strategy mentioned was to offset an increase in pension contributions through wages. This view tended to be held by small and medium-sized companies that did not consider that they had the options of absorbing the costs through profits or of passing them on through prices.

Other less common strategies that were mentioned include: encouraging employees to opt out of personal accounts or restructuring. There was some limited mention of the possibility of business closure.

Overall, there was very little evidence that employers offering a pension scheme with an employer contribution of three per cent or more would ‘level down’ their existing schemes in response to personal accounts. These employers tended to report that they were likely to apply for exemption from any new pension arrangements as they viewed their pension scheme as an important recruitment and retention tool that they would want to keep.

Employers found it difficult to respond to questions on how a new pension system of personal accounts should be implemented, and that it was hard to envisage how exactly their business would be affected. A range of new support needs were identified to help with changes in administration including payroll software updates, new staff and training of existing staff.
There was a strongly held view that access to personalised information about any new pension scheme, for both employer and employee would be important. Smaller employers, in particular, were keen to receive face-to-face information from Government representatives explaining the new proposals. Online facilities were generally felt to be essential for gaining information.

Fines, or prosecution threats, were suggested as a way of ensuring compliance with the scheme. However, employers felt that incentives such as tax breaks for complying with the introduction of personal accounts would be more effective than penalties.

The influence of employer size and pension membership was important when considering views towards the operating models. Overall, smaller employers and those with a low level of pension scheme membership were in favour of a system which reduced administration and what was mistakenly perceived to be employer liability which they thought would arise as a result of having a choice of provider. Larger employers with a high level of membership of their existing pension scheme were in favour of an operating model most similar to their current pension arrangements. These employers wished to retain their existing pension arrangements and indicated they would apply for exemption from a personal account pension scheme.

10.2 Non-business employers

Non-business employers were generally similar to the business employers in their attitudes to the proposals, and most akin to small businesses. However, non-business employers were less concerned about the impact of a minimum employer contribution. This was because staff salaries were generally close to the proposed minimum threshold for eligibility for automatic enrolment into personal accounts of about £5,000 per annum and therefore, the additional cost of an employer contribution would be low when only paid on earnings above this. It was also a strongly held view that their employees were likely to opt out of the scheme.

These employers raised concerns over their ability to deal with new administration brought about by the proposals which related to their anxiety about a lack of knowledge about pensions generally.

Similar to small business employers, non-business employers did not want the responsibility of choosing a pension provider and felt that they did not have the knowledge to do this. As a result, they were in favour of a system where they did not have to make this choice. They were also keen that administration was kept to a minimum.
Appendix A
Business topic guide
11 DWP EMPLOYER ATTITUDES TO PERSONAL ACCOUNTS
12 Topic Guide

Aims:
To explore
• General attitudes to pension provision
• Awareness and impact of the current pensions debate
• Reactions to the notion of automatically enrolling employees into state co-ordinated personal or individual pension account
• Views about the level of employer (if any) and employee contributions into a state co-ordinated personal or individual pension account
• Reactions to the various pension scheme account models and features (including automatic enrolment, minimum employer pension contributions, responsibility for nominating a provider, responsibility for collecting contributions, and the potential National Pension Savings Scheme)
• Specific issues such as liquidity and exemptions from the pension scheme arrangements
• The potential costs and burdens of any new pensions arrangements, together with the likely impact on the employer and
• Transitional and phasing arrangements.

1 Background
• About BMRB, independent research agency
• About the project
  – To explore employers’ views about the concept of automatically enrolling individuals into a state co-ordinated personal or individual pension account
  – Funded by the Department for Work and Pensions
  – This is one of a number of interviews being conducted around the country with other businesses
• Duration of interview (1 to 1 half hours)
• 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 research team
• Pension models presented are for research purposes only and do not imply Government commitment to change and does not give any indication of what the Government intends to do.

2 Background information about the employer

Explore characteristics of the employer
• Industry and nature of business
• Size (number of employees)
• Region
• Length of time in business

What are the current pension scheme arrangements for employees
• Type of pension provision, if any:
  If more than one scheme, discuss in relation to all
  – Occupational, stakeholder pension, group personal pension etc
  – salary related, money purchase
  – factors influencing this choice
  – length of time pension has been available
• Explore which employees the pension scheme is open to
  – Who’s eligible and why?
  – How long do employees have to wait before joining, are they allowed to join whilst on probation?
  – Does scheme offered vary between existing and new employees?
• Approximate membership levels
  – What factors do they think determine this?
  – Existing joining mechanisms (e.g. auto-enrolment etc)
Employer and employee contribution levels

• Discuss employee contributions (mandatory/voluntary/matched/vary by length of service/age etc)

• Average/most common level of employer contribution
  
  *Employer contributions might vary by seniority/length of service*
  
  – What are the reasons for this level?
  – How was this determined?

• Any recent changes to pension provision (major changes)
  
  – Explore reasons for these changes
  – How easy/difficult did they find making these changes?
  – Any proposed changes, reasons

• Administration of pension scheme
  
  – Administer their own
  – Outsource/partly outsource
  – Reasons for this

• How do they run their payroll systems (automatic or clerical)?:
  
  – Administer their own
  – Outsource/partly outsource
  – Reasons for this

• How do they do their tax returns (online or not)?
  
  – Administer their own
  – Outsource/partly outsource
  – Reasons for this

3  *Explore general employer attitudes to pension provision for their employees*

Views on current provision in company *(if any)*

• Do they consider the company’s current pension provision satisfactory?
  
  – As an employer
  – As satisfactory for their employees
  – Reasons for current provision or non-provision
Views on pension responsibility

- How important is it that employers help their employees to save for retirement?
- Whose responsibility is it to save for retirement?
  - Probe: Government, employer, individual
  - Where does the balance lie between Government, employer and employee
  - Reasons for views

4 General awareness of the pension debate and of options in the Pensions Commission report (Turner Report)

Awareness of any recent announcements from the Government about pensions
Awareness of the recent publication of the Pensions Commission’s Report (Turner Report)

- Reaction to this report
- Explore understanding of who conducted report and whether findings will be taken forward
- Awareness of key recommendations
  Probe:
  - Retirement age
  - National Pension Savings Scheme
  - Basic State Pension
  - Employer contribution
- What information have they gathered about the recommendations in the report and how it might affect what pension provision they need to make?
- Where did they get the info?
  Probe:
  - Media,
  - DWP website,
  - current pension provider (if applicable)
- Awareness of implications of the report – views on this
- Impact of pensions report on thinking about pensions/future planning
5 Introduction to automatic enrolment with a possible minimum employer contribution into a defined contribution retirement savings product with an employee opt out

INTERVIEWER USE SCRIPT OR SIMILAR:

‘The Pensions Commission’s report included, among other things, a recommendation for the establishment of a National Pensions Saving Scheme into which individuals are automatically enrolled, but with the right to opt out. Employees would be automatically enrolled into a personal pension account and pension contributions would be deducted from their wages every week or month. If an employee did not want to join they would have to specifically ask to be excluded. The Government is interested in exploring employers’ views on the idea of automatic enrolling people into some sort of a state co-ordinated personal or individual pension account. These personal or individual accounts could take a number of forms and have a range of different features with the State playing various roles.’

SHOW CARD A

The central features of this sort of scheme are likely to be:

• Automatic enrolment of employees into a defined contribution pension with an employee opt out

• This would apply to all employees earning approximately £5K or more

• A percentage of the employee’s salary would be automatically be deducted from individual’s pay each week or month

• There might be a minimum employer contribution

• The fund would be portable. If an individual changes employers they would be able to continue paying into the same pension account

• There would be low management/administration charges

Applying for exemption

• Employers might be able to apply for exemption from the scheme where their own pension scheme arrangements meet certain minimum criteria. These criteria are likely to include:

  – Their own scheme would need to have an employer contribution and a total contribution at least as good as or better than any new state co-ordinated personal account scheme after taking account of scheme charges

  – Employers would also have to automatically enrol all eligible employees into their ‘good’ scheme
6 General views/reactions to idea of automatic enrolment into a defined contribution retirement savings product with an employee opt out

1) Explore views/reactions to idea of automatic enrolment

Re-enrolment would mean that anyone who had chosen to opt out of the scheme would be automatically re-enrolled at a later date with the option to decide to opt out

- Views on automatic enrolment into a defined contribution pension as an idea for their employees
- Positive/negative impacts of automatic enrolment for employers (from the perspective of the employer’s company)
- Views on the re-enrolment of people who opt out
- Views on the Pensions Commission’s proposal to re-enrol people who have opted out every 3-5 years
- Do views on automatic enrolment differ if there is/is not a requirement for a minimum employer contribution

(NB: Important to get employer’s views on automatic enrolment disentangled from their views on a minimum employer contribution)

2) Explore reactions to possibility of minimum employer contributions and their impact

- Views on possibility of minimum employer contribution
  - How do they feel about the idea of a requirement for a minimum employer contribution?
  - How might they react if this was introduced?
  - How might this impact on existing pension provision?
- Views on rates of any employer contribution
  - If there were a minimum employer contribution level, at what level do employers feel this should be set?
  - Views on the Pensions Commission’s recommended level of three per cent

Elaborate on details of the NPSS scheme here e.g. contributions would only be made on gross earnings between min threshold (approx £5K) and the upper earnings limit (roughly £33K)
• Views on employer contribution rates over the longer term
  – Who do they think should be responsible for setting the level of contributions for the scheme?
  – PROBE:
    - Government/non-governmental body
    - Panel made up of Government and industry
    - Independent committee
    - Other
  – Importance of fixed contribution levels
    Probe: warning of changes

• Views on the likely impact of any new state coordinated personal account arrangement on a business
  – Views on positive elements of the overall idea and/or of particular features
  – What positive elements do they foresee?
  – How may positive elements impact on their business?
  – How might they respond? NB: It is important to first get employer’s spontaneous reactions as to what they might do before using the prompts. Also use “soft” prompts e.g. rather than saying would you reduce the number of staff that work for you? Would there be any impacts on your workforce etc
  - Impact on wages or employment
  - Levelling down of existing schemes
  - Cessation of other employee benefits e.g. stop offering a company car, private health insurance
  - Current pension scheme closure
  - Obtain an exemption
  - Introducing eligibility restrictions on current scheme
  - Pass on cost through prices
  - Nothing – allow reduced profits
  - Reduce size of firm
  - Encourage employees to opt out
  - Restructure workforce e.g. take on more part timers, hire more staff on temporary contracts etc.
  - Administration/liquidation
PROBE: How and reasons why on above.

3) Explore reactions to employee contributions and their impact
   • Employers’ views on employee contribution rates
     – View on level of employee contribution
     – What do they think about the Pensions Commission’s recommended employee contribution level of five per cent of GROSS earnings which is made up of four per cent contributions from employees’ post-tax pay and one per cent tax relief *NB: It’s important that this is presented as a percentage of earnings between the minimum and upper earnings limits*
       - Would they prefer a different employee contribution rate; what and reasons why
       - Impact on salary expectations
   • View on proposed balance of the employer and employee contribution levels
     *May need to remind respondent levels of employer contribution*

4) Explore employers’ views on employee opt out
   • Do they think employees will opt out – reasons why?
     – Would they encourage employees to opt out/not to opt out?
     – If so, how might they do this – reasons why?
     – Which employees and why?

5) Explore employers’ views of eligibility for scheme
   • Explore views on proposal that contribution will only be on earnings between the minimum and maximum thresholds
   • Explore views on proposal that only those earning over 5K and over 21 years will be eligible

6) Explore employers views of ‘Liquidity’ *(Individuals being allowed to take money out of the pension scheme under special circumstances e.g. as a house deposit, hardship etc). This should be presented as an option*
   - Employers’ views of employees being able to access the money in their personal account for reasons other than retirement e.g. for house deposit, hardship etc
   - Reasons behind these views
   - Does the possibility of liquidity as a feature of the pension scheme affect views of minimum employer contribution?
7 **Introduction to personal pension account variations**

INTERVIEWER USE SCRIPT OR SIMILAR ‘Currently there are three main ways in which the ideas we have discussed might be implemented, all would involve the employer having to automatically enrol employees into a defined contribution pension scheme with an employee opt out.’

**SHOW CARD B**

Employees would be automatically enrolled into a **stakeholder pension scheme** designated by the employer with the option of an opt out.

- The employer would be responsible for selecting a provider
- The employee would choose the pension fund(s) they wish to invest in. However, if they do not choose a fund their contributions would go into a default fund selected by the chosen provider
- The employer would be responsible for passing contributions to the provider
- All employers might need to do this including micro-employers (employers with fewer than 5 employees) who are currently exempt from the requirement to designate a stakeholder pension scheme

**SHOW CARD C**

Employees would be automatically enrolled into a **personal pension account through a central clearing house**. This central clearing house would be run by Government or some other agency and would act as a new intermediary administrating the collection of contributions

- The employer would engage with the central clearing house as opposed to dealing direct with pension providers
- The employee would decide which pension provider they wish to be with. If they do not make a decision they would be enrolled with a default provider selected by the clearing house
- The employee would choose the pension fund(s) they wish to invest in. However, if they do not choose a fund their contributions would go into a default fund selected by the chosen provider
- The employer would be responsible for passing employer and employee contributions to the central clearing house who would then ensure that the contributions were transferred to the individual’s chosen provider.
SHOW CARD D

Employees would be automatically enrolled into a personal pension scheme run by a central administration agency. This could be privately run, run by Government or some other agency. This is effectively the proposal put forward by the Pensions Commission Report – the National Pension Savings Scheme.

- The employer would engage with the central administration agency as opposed to having to deal direct with a pension provider(s)
- The central administration agency would be responsible for central administration, pension investment and provision
- The employee would choose the pension fund(s) they wish to invest in. However, if they do not choose a fund their contributions would go into a default fund selected by the central administration agency
- The employer would be responsible for passing employer and employee contributions to the central administration agency.

8 Views on role of State and pensions industry in central administration, pension investment and provision

- Explore spontaneous reactions to models
  - Which operating model do they prefer? Why?
- Explore views on pension provider choice
  - Model 1 suggests employers choose the pension provider for their employees
    - What is their view on this?
    - Do they want to choose the pension provider – reasons why?
    - How do they feel about the responsibility of choosing pension provider?
  - Models 2 and 3 suggests the pension provider is chosen by employee or a central clearing agency (or NPSS)
    - What is their view on this?
    - Would they want the Government or another agency to control this?
    - How do they feel about not choosing the pension provider for employees?
    - What implications may this have on view of models?
- How do employers choose their scheme at present?
  - To what extent do they rely on financial advisers?
  - Views on marketing from IFAs/providers to employers (under current arrangements)
- View on employee ability to change their mind about the provider/fund they have invested in (NB: discuss separately for provider and for fund)
- How frequently should they be allowed to do this
- Pensions Commission’s proposes twice per year – Explore views

- Views on ability to control and personalise the overall benefits package their company offers with an increasing Government role in pension benefits
- Employer’s views on who should run the new scheme if it were introduced
  PROBE: Government/Government agency/pensions industry/other
  - Reasons why.

9 Administration costs and burdens (of any new personal account arrangements)

- Employers views on administration that might be involved with any new personal account arrangement
  Spontaneous then probe:
  - Identifying who is eligible for the new pension scheme arrangement
  - Providing information to employees on new scheme e.g. information pack
  - Keeping records of those who opt out of the scheme
  - Providing details of those who do not opt out to the provider or a central agency
  - Calculate contributions to pension and passing these to a provider/central agency on a weekly/monthly basis
  - Make changes to HR systems and payroll to ensure pensions contributions are deducted from employee’s pay
  - Liaise with provider/central agency to resolve any discrepancies in contributions etc
  - Informing the pension provider or central agency of leavers

- How would these additional administrative costs impact on their business?
  - Reasons why
  - Compared to existing administrative arrangements how much additional work might this involve if any?
  - If spontaneously mention that impact may be liquidation/administration, on what basis do they make that judgement
  - Views on support needed to manage additional costs and burdens

- Views on BACS as a method of paying contributions - implications (payments have to be made separately from payroll activity (not as part of PAYE)
  - Positive and negative aspects as compared to existing PAYE arrangements
• Views about impact of variable/intermittent employee contributions on the administration of the scheme
• Views about the impact of lump sum employee contributions on the administration of the scheme
• Summary of views of the scheme
  – Explore overall concerns about the scheme as a whole
    - Positive/negative aspects are of the scheme as a whole
    - What are they more concerned about, additional costs of minimum employer contributions or additional administrative burdens involved with any new arrangement?
    - Which will be the most costly/burdening?
    - Reasons why

10 Employers’ views of employees’ response
• Explore general views of employee reaction to idea of automatic enrolment into a personal account with an opt out and minimum employee and employer contributions
  – How do they think their employees might respond to this idea?
  – What aspects do they think they would like/dislike?
  – How will they regard their role in providing information/advice to employees?
  – What sort of opt out level might there be? What type of employees do they think might opt out/not opt out?
  – Explore views on whether employees will still regard pension as an employer benefit
  – Employers views on pensions being tied to individuals rather than employer (portability), effects on retention of staff
  – Employer’s views on automatically enrolling their employees into a defined contribution pension
  – Explore views on employees’ desire to have the choice of a pension fund with a type of guaranteed investment e.g. guaranteed to get out what you put in

11 Information needs and compliance regimes
• What information needs do they think they will have?
  – Who do they think should provide information?
  – Who do they think employees will expect to receive information from?
• How would employers like to receive information about the possible new requirements?
  (e.g. on-line, information pack, letter, telephone, CD Rom, Helpline etc)
• Who should this information come from?
  (Government, The Regulator, central clearing house/Central Administration Agency, own adviser, employer representative body etc) – reasons why

• Views on what might encourage employers to comply with new scheme (e.g. improvement notice from the regulator, financial penalties)

12 Views on exemption application process
• Employers’ views on applying for exemption by sending evidence to the clearing house/central agency/regulator that they have a suitable (as defined previously) alternative pension scheme available

• How would they like to apply for exemption (e.g. online)?
  – Views on assistance they might need to do this e.g. actuarial

13 Introduction of the new pensions system
• Explore views on the introduction of any new pensions system

  PROBE:
  – Should all employers begin automatic contributions on a set date for all eligible employees?
  – OR Should automatic contributions be phased in over a defined time period?
    - Explore how long should this period be, reasons why

• Explore if the system is phased in, how do they think it should be organised

  Probe:
  – New employees only, with existing staff automatically enrolled later
  – Phase in by type of industry
  – Introduce for larger employers, with smaller employers being allowed more time to introduce
    - What size of small employer should this be phased in for, reason why?
    - Should it be phased in for any other type of employer, reasons why?

  – Employer’s views on introducing the scheme on a voluntary basis before phasing to a minimum contribution level.
    - Would they want to volunteer their firm early?
    - Do they think this would work?
– Phase in contribution levels
  - For employer contribution level or employee contribution level, or both.
    Reasons for this view
  - What level should this begin at and over how long (e.g. one per cent starting
    level then increase one per cent every year until they reach minimum
    contribution level)?
  - Employer’s views on what might help/enable them to implement the new
    scheme if it were introduced

14 Summing up

• Employers key concerns
• Issues they feel have not been considered
• Questions/Issues they would like addressed in development of pension reform

THANK AND CLOSE
Appendix B
Non-business topic guide
13 DWP EMPLOYER ATTITUDES TO PERSONAL ACCOUNTS
14 Topic Guide

Aims:
To explore

- General attitudes to pension provision
- Awareness and impact of the current pensions debate
- Reactions to the notion of automatically enrolling employees into state co-ordinated personal or individual pension account
- Views about the level of employer (if any) and employee contributions into a state co-ordinated personal or individual pension account
- Reactions to the various pension scheme account models and features (including automatic enrolment, employer pension contributions, responsibility for nominating a provider, responsibility for collecting contributions, and the potential National Pension Savings Scheme)
- Specific issues such as liquidity and exemptions from the pension scheme arrangements
- The potential costs and burdens of any new pensions arrangements, together with the likely impact on the employer and
- Transitional and phasing arrangements.

1 Background

- About BMRB, independent research agency
- About the project
  - To explore employers’ views about the concept of automatically enrolling individuals into a state co-ordinated personal or individual pension account
  - Funded by the Department for Work and Pensions
  - This is one of a number of interviews being conducted around the country with other businesses.
• Duration of interview (1 to 1 half hours)
• 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 research team
• Pension models presented are for research purposes only and do not imply Government commitment to change and does not give any indication of what the Government intends to do

2 Background information about the employer

Explore characteristics of the employer
• Purpose of employment
• Size (number of employees)
• Region
• Length of time employing ‘staff’ and ‘staff’ turnover
• Do your staff work for any other employers?
• Check employee(s) earn more than £5,000 per annum and record how much they earn
• Explore any employee benefits provided (on top of earnings)
  – Probe ‘softer benefits’ e.g. use of family car at weekends
• What system do they use to pay their employee(s) (automatic or clerical)?
  – Do they administer this themselves, use an accountant or outsource to an organisation who provide payroll service e.g. ‘nannytax’?
• How do they do their tax returns (on line or not)?
  – Do they administer this themselves or outsource?

NB It is highly unlikely that these employers offer a pension scheme for their employees
What are the current pension scheme arrangements for employees, if any existing provision?

- Type of pension provision, if any:
  
  *If more than one scheme, discuss in relation to all*
  - Occupational, stakeholder pension, group personal pension etc
  - salary related, money purchase
  - factors influencing this choice
  - Length of time pension has been available
  - Are all employees eligible for the scheme
  - How long do employees have to wait before joining

- Employer and employee contribution levels (if existing pension provision)
  - Discuss employee contributions (mandatory/voluntary/matched/vary by length of service/age/none etc) *(Ask whether gross or net level)*
  - Existing joining mechanisms (e.g. automatic enrolment)

- Level of employer contribution
  - What are the reasons for this level?
  - How was this determined?
  - *(Ask whether gross or net level)*

- Any recent changes to pension provision (major changes)
  - Explore reasons for these changes
  - How easy/difficult did they find making these changes?
  - Any proposed changes, reasons

- Do they administer the pension scheme that staff belong to or pay someone else to do this?
  - Reasons for this

3 Explore general attitudes to pension provision

- Views on pension responsibility
  - How important is it that they help their employees to save for retirement?
  - How do they see their responsibility towards providing a pension for their employee(s)?
  - Whose responsibility is it to save for retirement?
- Probe: Government, employer, individual
- Where does the balance lie between Government, employer and employee
- Reasons for views
- Explore knowledge of employee’s own pension arrangements

4 General awareness of the pension debate and of options in the Pensions Commission report (Turner Report)

- Awareness of any recent announcements from the Government about pensions
- Awareness of the recent publication of the Pensions Commission’s Report (Turner Report)
  - Reaction to this report
  - Explore understanding of who conducted report and whether findings will be taken forward
  - Awareness of key recommendations
    Probe:
    - Retirement age
    - National Pension Savings Scheme
    - Basic State Pension
    - Employer contribution
  - Do they think these recommendations might apply to employers like them/have any implications for them?
  - What information have they gathered about the recommendations in the report and how it might affect what pension provision they need to make?
  - Where did they get the info?
    Probe:
    - Media
    - DWP website
    - current pension provider (if applicable)
  - Awareness of implications of the report for them and employers like them—views on this
    - Had they considered it might affect them?
  - Impact of pensions report on thinking about pensions/future planning
5 Introduction to automatic enrolment with a possible minimum employer contribution into a defined contribution retirement savings product with an employee opt out

INTERVIEWER USE SCRIPT OR SIMILAR:

‘The Pensions Commission’s report included, among other things, a recommendation for the establishment of a National Pensions Saving Scheme into which individuals are automatically enrolled, but with the right to opt out. Employees would be automatically enrolled into a personal pension account and pension contributions would be deducted from their wages every week or month. If an employee did not want to join they would have to specifically ask to be excluded. The Government is interested in exploring employers’ views on the idea of automatic enrolling people into some sort of a state co-ordinated personal or individual pension account. This might include individuals who do not work for a business but are employed to provide a service and earn over £5,000 per annum (such as a nanny). These personal or individual accounts could take a number of forms and have a range of different features with the State playing various roles.’

SHOW CARD A

The central features of this sort of scheme are likely to be:

• Automatic enrolment of employees into a defined contribution pension with an employee opt out

• This would apply to all employees earning approximately £5K or more

• A percentage of the employee’s salary would be automatically be deducted from individual’s pay each week or month

• There might be a minimum employer contribution

• The fund would be portable. If an individual changes employers they would be able to continue paying into the same pension account

• There would be low management/administration charges.

Applying for exemption

• Employers might be able to apply for exemption from the scheme where their own pension scheme arrangements meet certain minimum criteria. These criteria are likely to include:
  – Their own scheme would need to have an employer contribution and a total contribution at least as good as or better than any new state co-ordinated personal account scheme after taking account of scheme charges
  – Employers would also have to automatically enrol all eligible employees into their ‘good’ scheme.
6 General views/reactions to idea of automatic enrolment into a defined contribution retirement savings product with an employee opt out

1) Explore views/reactions to idea of automatic enrolment

Views on automatic enrolment into a defined contribution pension as an idea for their employees

A defined contribution scheme is:

- Also known as a money purchase scheme
- Money is collected from the employer and/or the employee
- This is usually at a fixed percentage of the salary and is collected in a pot
- The pot is then invested by the pension company
- If the stock markets do well, or interest rates are high, the pot grows faster
- When the employee retired, the pot is used to buy an annuity from a pension provider
- They then pay out a pension based on the size of the pot and the rate of return offered
- Positive/negative impacts of automatic enrolment for employers like them
- Views on the re-enrolment of people who opt out

Re-enrolment would mean that anyone who had chosen to opt out of the scheme would be automatically re-enrolled at a later date with the option to decide to opt out

- Views on proposal to re-enrol people who have opted out every 3-5 years
- Do their views on automatic enrolment differ if there is/is not a requirement for a minimum employer contribution?

(NB: Important to get employer’s views on automatic enrolment disentangled from their views on a minimum employer contribution)

2) Explore reactions to possibility of there being a minimum employer contribution and its impact

- Views on possibility of minimum employer contribution
  - How do they feel about there being a requirement for minimum employer contribution?
  - How might they react if this was introduced (e.g. move to agency employment)?
  - Positive and negative impacts of such a scheme for employer and employees
  - Any impacts this may have on existing pension arrangements (if they have any existing pension arrangements for their staff)
• Views on rates of any employer contribution
  – If there were a minimum employer contribution level, at what level do employers feel this should be set for employers like them (Ask whether gross or net level)?
  – Views on the Pensions Commission’s recommended level of three per cent

  *Elaborate on details of the NPSS scheme here e.g. contributions would only be made on gross earnings between min threshold (approx £5K) and the upper earnings limit (roughly £33K)*

• Views on employer contribution rates over the longer term
  – Who do they think should be responsible for setting the level of contributions for the scheme?
  – **PROBE:**
    - Government/non-governmental body
    - Panel made up of Government and industry
    - Independent committee
    - Other
  – Importance of fixed contribution levels

  *Probe: warning of changes*

• Views on the impact/response of any new state coordinated personal account arrangement
  – Views on positive elements of the overall idea and/or of particular features
  – What positive elements do they foresee?
  – How might they respond? *NB: It is important to first get employer’s spontaneous reactions as to what they might do before using the prompts*

  - Impact on wages or employment
  - Levelling down of existing schemes
  - Cessation of other employee benefits e.g. stop offering a company car, private health insurance
  - Current pension scheme closure
  - Obtain an exemption
  - Introducing eligibility restrictions on current scheme
  - No longer employ staff
  - Reduce the hours staff work to avoid requirement
  - Employ staff on an informal/unofficial basis
  - Employ staff through an agency

  *Probe how and reasons why on above*
3) Explore reactions to employee contributions and their impact

- Employers’ views on employee contribution rates
  - View on level of employee contribution *(Ask whether gross or net level)*
  - What do they think about the Pensions Commission’s recommended employee contribution level of five per cent of GROSS earnings which is made up of four per cent contributions from employees’ post-tax pay and one per cent tax relief *NB: It’s important that this is presented as a percentage of earnings between the minimum and upper earnings limits*
  - Would they prefer a different employee contribution rate; what and reasons why?
  - Impact on salary expectations
  - Explore should contribution rates differ for employers like them

- View on proposed balance of the employer and employee contribution levels
  *May need to remind respondent levels of employer contribution*

4) Explore employers’ views on employee opt out

- Do they think employees will opt out?
  - Reasons why, e.g. cannot afford to/pot too small
  - Would they encourage employees to opt out/not to opt out?
  - If so, how might they do this – reasons why?
  - Which employees and why?

5) Explore employers’ views of eligibility for scheme

- Explore views on proposal that contribution will only be on earnings between the minimum and maximum thresholds

- Explore views on proposal that only those over 21 years will be eligible and those earning £5K +
  - Views on any other exemptions they think should exist

6) Explore employers views of ‘Liquidity’ *(Individuals being allowed to take money out of the pension scheme under special circumstances e.g. as a house deposit, hardship etc). This should be presented as an option*

- Employers’ views of employees being able to access the money in their personal account for reasons other than retirement e.g. for house deposit, hardship etc

- Reasons behind these views

- Does the possibility of liquidity as a feature of the pension scheme affect views of minimum employer contribution?
7  Introduction to personal pension account variations

INTERVIEWER USE SCRIPT OR SIMILAR ‘Currently there are three main ways in which the ideas we have discussed might be implemented; all would involve the employer having to automatically enrol employees into a defined contribution pension scheme with an employee opt out. This would mean that you would have to arrange for deductions to be made from the individual’s wages on a regular basis unless the employee specifically said that they did not want to participate.’

SHOW CARD B

Employees would be automatically enrolled into a **stakeholder pension scheme** designated by the employer with the option of an opt out.
- The employer would be responsible for selecting a provider
- The employee would choose the pension **fund(s)** they wish to invest in. However, if they do not choose a fund their contributions would go into a default fund selected by the chosen provider
- The employer would be responsible for passing contributions to the provider
- All employers might need to do this including small employers like you who are currently exempt from the requirement to designate a stakeholder pension scheme.

SHOW CARD C

Employees would be automatically enrolled into a **personal pension account through a central clearing house**. This central clearing house would be run by Government or some other agency and would act as a new intermediary administrating the collection of contributions.
- The employer would engage with the central clearing house as opposed to dealing direct with pension providers
- The employee would decide which pension provider they wish to be with. If they do not make a decision they would be enrolled with a default provider selected by the clearing house
- The employee would choose the pension fund(s) they wish to invest in. However, if they do not choose a fund their contributions would go into a default fund selected by the chosen provider
- The employer would be responsible for passing employer and employee contributions to the central clearing house who would then ensure that the contributions were transferred to the individual’s chosen provider.
SHOW CARD D

Employees would be automatically enrolled into a personal pension scheme run by a central administration agency. This could be privately run, run by Government or some other agency. This is effectively the proposal put forward by the Pensions Commission Report – the National Pension Savings Scheme.

- The employer would engage with the central administration agency as opposed to having to deal direct with a pension provider(s).
- The central administration agency would be responsible for central administration, pension investment and provision.
- The employee would choose the pension fund(s) they wish to invest in. However, if they do not choose a fund their contributions would go into a default fund selected by the central administration agency.
- The employer would be responsible for passing employer and employee contributions to the central administration agency.

8 Views on role of State and pensions industry in central administration, pension investment and provision

- Explore spontaneous reactions to models
  - Which operating model do they prefer? Why?
- Explore views on pension provider choice
  - Model 1 suggests employers choose the pension provider for their employees
    - What is their view on this?
    - Do they want to choose the pension provider – reasons why?
    - How do they feel about the responsibility of choosing pension provider?
  - Models 2 and 3 suggests the pension provider is chosen by employee or a central clearing agency (or NPSS)
    - What is their view on this?
    - Would they want the Government or another agency to control this?
    - How do they feel about not choosing the pension provider for employees?

- How do employers choose their scheme at present? (if appropriate)
  - To what extent do they rely on financial advisers
  - Views on marketing from IFAs/providers to employers (under current arrangements)
• View on employee ability to change their mind about the **provider/fund**
  *(NB: discuss separately for provider and for fund)*
  – How frequently should they be allowed to do this?
  – Pensions Commission’s proposes twice per year – Explore views

• Views on ability to control and personalise the overall benefits package they
  offer with an increasing Government role in pension benefits.

• Employer’s views on who should run the new scheme if it were introduced
  PROBE: Government/ Government agency/pensions industry/other
  – Reasons why

9 **Administration costs and burdens** *(of any new personal account arrangements)*

• Employers views on administration that might be involved with any new personal
  account arrangement
  Spontaneous then probe:
  – Identifying who is eligible for the new pension scheme arrangement
  – Providing information to employees on new scheme e.g. information pack
  – Keeping records of those who opt out of the scheme
  – Providing details of those who do not opt out to the provider or a central
    agency
  – Calculate contributions to pension and passing these to a provider/central
    agency on a weekly/monthly basis
  – Make changes to methods of paying employee(s) to ensure pensions
    contributions are deducted from pay
  – Liaise with provider/ central agency to resolve any discrepancies in contributions
    etc
  – Informing the pension provider or central agency of leavers

• How would these additional administrative costs impact on the employment of
  employees?
  – Reasons why
  – How much additional work might this involve compared to existing
    administration arrangements if any?
  – If **spontaneous** impact may be liquidation/administration, on what basis do
    they make that judgement?
  – Views on support needed to manage additional costs and burdens
• Views on BACS as a method of paying contributions - implications (payments have to be made separately from payroll activity (not as part of PAYE)
  – Positive and negative aspects compared to existing PAYE arrangements.
• Views about impact of variable/intermittent employee contributions on what they would have to do
• Views about the impact of lump sum employee contributions on what they would have to do
• Summary of views of the scheme
  – Explore overall concerns about the scheme as a whole,
    - Positive/negative aspects are of the scheme as a whole
    - What are they more concerned about, additional costs of minimum employer contributions or additional administrative burdens involved with any new arrangement?
    - Which will be the most costly/burdening?
    - Reasons why

10 Employers’ views of employees’ response
• Explore general views of employee reaction to idea of automatic enrolment into a personal account with an opt out and minimum employee and employer contributions
• How do they think their employees might respond to this idea?
• What aspects do they think they would like/dislike?
• How will they regard their role in providing information/advice to employees?
• What sort of opt out level might there be? What type of employees do they think might opt out/not opt out?
• Explore views on whether employees will still regard pension as an employer benefit
• Employers views on pensions being tied to individuals rather than employer (portability), effects on retention of staff
• Employer’s views of employees’ views of automatic enrolment into a defined contribution pension
• Explore views on employees’ desire to have the choice of a pension fund with a type of guaranteed investment e.g. guaranteed to get out what you put in
11 Information needs and compliance regimes

- What information needs do they think they will have?
  - Who do they think should provide information?
  - Who do they think employees will expect to receive information from?

- How would employers like to receive information about the possible new requirements?
  (e.g. on-line, information pack, letter, telephone, CD Rom, Helpline etc)

- Who should this information come from?
  (Government, The Regulator*, central clearing house/Central Administration Agency, own adviser, employer representative body etc) – reasons why

- Views on what might encourage employers to comply with new scheme
  (e.g. improvement notice from the regulator, financial penalties)

* A body established by Government to regulate pension schemes in the UK

12 Views on exemption application process

NB: Unlikely to apply to many employers of this type

- Employers’ views on applying for exemption by sending evidence to the clearing house/central agency/regulator that they have a suitable (as defined previously) alternative pension scheme available

- How would they like to apply for exemption (e.g. online)?
  - Views on assistance they might need to do this e.g. actuarial

13 Introduction of the new pensions system

- Explore views on the introduction of the new pensions system

  PROBE:
  - Should all employers begin automatic contributions on a set date for all eligible employees
  - OR Should automatic contributions be phased in over a defined time period?
    - Explore how long should this period be, reasons why
• Explore if the system is phased in, how do they think it should be organised

  Probe:

  – New employees only, with existing staff automatically enrolled later
  – Phase in by type of industry
  – Introduce for larger employers, with employers like you being allowed more time to introduce
    - What size of small employer should this be phased in for, reason why?
    - Should it be phased in for any other type of employer, reasons why?
  – Employer’s views on introducing the scheme on a voluntary basis before phasing to a requirement for minimum contribution level.
    - Would they want to volunteer their firm early?
    - Do they think this would work?
  – Phase in contribution levels
    - For employer contribution level or employee contribution level, or both. Reasons for this view
    - What level should this begin at and over how long (e.g. one per cent starting level then increase one per cent every year until they reach minimum contribution level)?
  – Employer’s views on what might help/enable them to implement the new scheme if it were introduced

14 Summing up

• Employers key concerns
• Issues they feel have not been considered
• Questions/Issues they would like addressed in development of pension reform

THANK AND CLOSE
Appendix C
Screening questionnaire
Appendices – Screening questionnaire

45104616  DWP Employer Attitudes to Personal Accounts
Screening Questionnaire

• BLOCK CAPS INITIALS SURNAME
Mr/Mrs/Miss/Ms ____________________ ____________________
• First names ____________________ ______________________________________
• Position ____________________ ______________________________________
• Organisation Name ______________________________________
Address ______________________________________
Post Code ______________________________________
Telephone Number ______________________________________
Group Details (initial)
Telephone Recruitment
Delivered Invitation
Sent Confirmation
Confirmed Attendance

Quotas
Area
• N. England
• Midlands
• S. England
• Wales
• Scotland
Business and Non-Business Employment
• Business
• Non-Business
Type of industry
• Manufacturing
• Retail
• Service
• Other

RECRUITER’S DECLARATION
• The person named above has been recruited by me in accordance with
• the instructions and within the Market Research Society Code of Conduct.

Signed: ________________________________
Print name: ___________________________  Date: ___________________
“Good morning/afternoon, I’m from BMRB International, an independent research organisation. We have been asked to conduct some research on behalf of the Department for Work and Pensions (DWP) into employers’ attitudes to proposed pension reforms. We were wondering if you would be interested in taking part.”

Please understand that
- The research is totally confidential.
- BMRB is completely independent of the DWP
- BMRB will not be giving the Department any details of respondents that could be traced back to them or their company and they do not know who BMRB are contacting.

May I ask you a few questions?

1. How many people do you or your business employ*?

<table>
<thead>
<tr>
<th>Employment Range</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-4</td>
<td>1</td>
</tr>
<tr>
<td>5-49</td>
<td>2</td>
</tr>
<tr>
<td>50-249</td>
<td>3</td>
</tr>
<tr>
<td>250-999</td>
<td>4</td>
</tr>
<tr>
<td>1000-4999</td>
<td>5</td>
</tr>
<tr>
<td>5000</td>
<td>6</td>
</tr>
</tbody>
</table>

*Definition of ‘employ’ is that the individual is responsible for the tax and national insurance contributions of payment to employee

2. Are your employees employed as part of a business or are they providing a service to you (e.g. a nanny or gardener)?

<table>
<thead>
<tr>
<th>Type</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>1</td>
</tr>
<tr>
<td>Service</td>
<td>2</td>
</tr>
</tbody>
</table>

3. Do they earn more than £5000 per annum?

<table>
<thead>
<tr>
<th>Answer</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
</tr>
</tbody>
</table>
4. What type of industry does the business fall into?

- Manufacturing: 1
- Retail: 2
- Services: 3
- Other: 4

Check quota and continue

5. Do you currently offer a pension scheme to any of your employees?

- Yes: 1 GO TO Q6
- No: 2 GO TO Q7

Check quota and continue

6. Do you make an employer's contribution to this scheme?

- Yes: 1 Record %………
- No: 2

Check quota and continue

7. Check area quota and record ________________________________

We would like you to take part in an interview. The interview will be about your attitudes to possible options for pension reform and the impacts this may have on your business. It will last between an hour and one and a half hours and can take place either in your office or at another suitable location.

The discussion will be confidential, by which we mean anonymous. DWP do not usually offer financial incentives for taking part in research, however you will receive £25 from BMRB by way of a thank you for your time. If you wish, you may donate this to a charity of your choice.

Your interview will be at ......................... (time) on ....../....../......(date).

The researcher conducting the interview will be ......................... (researcher name).

Would you be willing to participate?

- YES
- NO please write in reason

THANK AND CLOSE
Appendix D
Analysis

BMRB Social Research are always committed to producing a thorough analysis of the data and set procedures are in place to ensure analysis is undertaken in a systematic and comprehensive manner and that the findings are based on the raw data rather than on a researcher’s impressions. The interviews are all transcribed verbatim and then analysed by experienced members of the BMRB team.

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 in detailed and micro form (for example, accounts of experiences, inarticulate explanations, etc.). 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.

Our method involves a systematic process of sifting, summarising and sorting the material according to key issues and themes. We use a set of content analysis techniques, known as ‘Matrix-Mapping’, to ensure an optimum synthesis of findings from the verbatim data.

The first stage of ‘Matrix-Mapping’ involves familiarisation with the data (in the form of the audio tapes or verbatim transcripts) and identification of emerging issues. Based on this preliminary review of the data as well as the coverage of the topic guide and the researchers’ experiences of conducting the fieldwork, 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. The thematic matrix comprises a series of subject charts displayed either in Word, Excel or Insight qualitative software. In this case, Excel software was utilised.
The subject headings included in the charts used on this project were as follows:

1. Background
2. Automatic enrolment and opt out
3. Employer and employee contributions
4. Personal account model variations
5. Administration and information needs
6. Phasing in arrangements and summary.

Data from each interview transcript was summarised and transposed under the appropriate subject heading of the thematic matrix. The context of the information is retained and the page of the transcript from which it comes noted, so that it is possible to return to a transcript to explore a point in more detail or to extract text for verbatim quotation. 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 mapping process is similar whichever of the above features are being considered. 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, but 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.

The key issues, and the features that underpin them, are then used as the basis for constructing, in this instance, the oral presentation and the written report. Verbatim quotes are also used throughout in order to illustrate and illuminate the findings.

We have used, and refined, our analytical procedures over many years. They are highly respected by our clients and are noted for their ability to extract the maximum information from qualitative data. Our methods are very robust and demonstrably able to stand up to public scrutiny. They have been used, for example, in the analysis of difficult and sensitive topics and have provided the analytical structure for many high profile pieces of work.