An evaluation of scheme joining techniques in workplace pension schemes with an employer contribution

Case study findings of scheme joining techniques

Sarah Horack and Andrew Wood

A report of research carried out by RS Consulting on behalf of the Department for Work and Pensions

Corporate Document Services
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We also wish to thank our colleagues at RS Consulting who assisted in gaining the consent of eligible employers to participate, interviewing, capturing and analysing data and preparing various reports: Anna Noren, Anna Waterhouse, Arabella McNeill, and Carlos Sanchez. For assistance in planning the project we also thank Margaret Watmough and John Leston.

The authors accept that a research undertaking such as this is bound to have shortcomings, only some of which have been recognised and dealt with in our report. Although we wish they could all have been overcome, we nevertheless accept responsibility for them.
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Abbreviations

DB  Defined benefit
DC  Defined contribution
DMD Distance Marketing Directive
DWP Department for Work and Pensions
FSA Financial Services Authority
GPP Group personal pension
IFA Independent Financial Adviser
NHS National Health Service
Opra Occupational Pensions Regulatory Authority
SHP Stakeholder pension
Glossary of terms

**Active Decisions**

Pension scheme enrolment technique whereby new employees are required to make a decision on whether to join their employer’s scheme. The joining form asks people to decide if they want to join the scheme: yes or no. These forms are designed to make people think they have to make a decision between two alternatives: decide to become a **member** or decide not to become a **member** of the scheme. Employees actively deciding that they do not want to become a **member** are not enrolled, but nor are those who do nothing, i.e. they fail to make a choice, despite the wording of the form.

**Actuary**

An expert qualified to give advice on funding questions which affect a pension scheme, for example, on assets and liabilities, life expectancy and the probability of things happening.

**Automatic Enrolment**

Pension scheme enrolment technique whereby an employer operates an ‘opt-out method’, where it automatically enrols eligible employees in the workplace pension scheme without the employees having to make a separate application for membership. Employees are able to opt out of the scheme if they prefer, whether to make alternative provision or otherwise.
Cash in lieu  An alternative to a pension contribution offered by some employers. The sum of money that the employer would have paid into an employee’s pension scheme is instead paid as cash as part of the employee’s salary. When paid in this way, the cash is treated as part of the employee’s salary for tax and National Insurance Contributions purposes.

Closed scheme  A scheme which does not admit new members, but contributions may still be made by existing members and/or the employer. Members continue to accrue new pension rights.

Default contribution  The set amount of contributions paid into a member’s workplace pension by the member, employer or both, if no decision is made by the individual regarding what to contribute.

Defined benefit  A scheme that provides benefits based on how much a person is paid at retirement and the number of years they have been in the pension scheme.

Defined contribution  A scheme that provides benefits based on how much has been paid into the scheme, the investment returns earned and how much pension this money will buy at retirement.

Distance Marketing Directive  The Distance Marketing of Consumer Financial Services Directive is a European Directive that aims to provide customers with protection where financial services are sold to them at a distance. It came into force in the UK on 31 October 2004.

Funded  Pension schemes in which pension contributions are paid into a fund which is invested and pensions are paid out of this pot.

Frozen scheme  A scheme where no further contributions are payable and no further benefits accrue, but members are entitled to preserved benefits.
Group personal pension

At its simplest, this is a series of individual personal pension plans, although if an employer sets up a group plan it is more likely to make a contribution and possibly provide life assurance and other benefits as well. Each member has a separate policy with the provider but contributions are collected together. The GPP is not an occupational pension scheme, so the contribution and benefit limits for individual personal pensions apply.

Independent Financial Adviser

Individuals who give advice about all aspects of finance, IFAs can advise and sell products for a range of insurance companies and investment companies. Generally, the companies pay them commission when they sell a product, although they may assign part of that commission to their client. There are also IFAs who do not take commission but charge a fee to their clients instead.

Lifestyle fund/lifestyling

As an individual nears retirement, the assets of the fund are moved into safer investment models, thereby reducing the risk of a sudden downturn in the markets at the point of retirement.

Matching contributions

An arrangement found in defined contribution pension schemes where an employer will match an individual’s contribution up to a set limit.

Member

An employee who has joined their workplace pension scheme and is entitled to benefits under it.

National Insurance Benefits

State benefits, such as the basic State Pension, which are based on the amount of National Insurance Contributions paid by the individual receiving the benefit.

National Insurance Contributions

This is money that the Government deducts from both employees and employers. The amount depends upon how much the employee earns. These deductions are paid into the National Insurance Fund.
National Insurance Fund  
Fund into which National Insurance Contributions are paid, and from which National Insurance Benefits are drawn.

Non-member  
An employee who is eligible to be a pension scheme member but is not.

Occupational pension  
A pension scheme which is offered by employers for the benefit of their workforce, which usually takes the form of a trust arrangement and is legally separate from the employer.

Open scheme  
A scheme which admits new members.

Required employee contribution  
The minimum contribution that an employee must pay into a pension plan to qualify to receive an employer contribution into that same plan and be a scheme member.

Stakeholder pension  
A stakeholder pension must meet certain legislative conditions including charges and the way in which the scheme is run. Employers with five or more employees who do not already offer a pension scheme must nominate a stakeholder pension scheme. These employers do not have to contribute to a stakeholder pension but they must allow employees access to the scheme.

Streamlined Joining  
Pension scheme enrolment technique whereby the employee has to elect to join the scheme, but the complexity of the joining process is substantially reduced for the employee. For example, the application form may be very short, or the employee may have to do no more than provide a signature on a pre-populated form.

Traditional opt-in  
Any pension scheme enrolment technique, where the employee has to elect to join the scheme, and no special measures are in place to ease or hasten the employee’s decision: they usually have to complete an application form, which may be lengthy, in order to join.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trustee</td>
<td>An individual or company appointed to hold assets for the beneficiaries of an occupational pension scheme. They act separately from the employer and are bound by trust law.</td>
</tr>
<tr>
<td>Unfunded</td>
<td>Pension schemes which are not backed by a pension fund. Instead current contributions are used to pay current pensions along with other funds provided by the employer.</td>
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</tbody>
</table>
Summary

Policy background

As stated in the Department for Work and Pensions’ (DWP’s) Informed Choice Command Paper¹, the Government is committed to evaluating a range of approaches to establish which are the most effective ways to deliver increased pension saving in the UK. In part, this commitment is driven by estimates that 4.6 million employees have not joined employer-based pension schemes to which they have access².

International evidence suggests that enrolment techniques may influence scheme membership if they make it easier for employees to join their employer’s pension scheme. The enrolment techniques traditionally used by pension schemes in the UK have tended to place the onus on employees and may involve completing long and detailed application forms.

Evaluation of techniques which make it easier for people to join their workplace pension scheme

DWP commissioned a study in October 2004 to evaluate the impact on membership in the UK of three non-traditional techniques, as used in pension schemes where there was an employer contribution. The techniques studied were Automatic Enrolment, Streamlined Joining and Active Decisions. In 11 private sector schemes where a change was made away from traditional opt-in, and in two public service schemes where Automatic Enrolment had been used since the schemes’ inception, qualitative evidence was gathered on how the three non-traditional techniques worked in the UK and what circumstances might have limited or enhanced their effectiveness. There was an employer contribution in all 13 schemes studied.

¹ ‘Simplicity, security and choice: ‘Informed choices for working and saving’ (February 2004).
² Family Resources Survey (2002/3).
The case studies in Chapter 3 summarise information that was gathered from depth interviews with employers, pension providers, Independent Financial Advisers (IFAs) and employees including members and non-members of the pension schemes studied. In addition to this qualitative evidence, administrative data from payroll and membership records were used when they could be provided by employers and pension providers.

Case studies were preceded by 12 exploratory interviews with experts selected for their different perspectives on pensions and related issues, as described in Table 1.3. The case studies were supported by two additional components of the research programme focused on possible barriers to change:

- depth interviews with 14 ‘reluctant employers’ that had considered but rejected Automatic Enrolment;
- two focus groups with IFAs who had their own views on non-traditional enrolment techniques and had experience of how employers regarded and made decisions about enrolment techniques.

Impact of joining technique on participation rates

There were considerable variations in participation rates after enrolment techniques changed in the 11 private sector schemes studied, including variations among schemes adopting the same technique. In an evaluation of this small scale, findings are indicative, not definitive, and the limitations in data available mean that it is not possible to impute causality or conclude that similar outcomes would be achieved in different circumstances. Nevertheless, in the cases that were studied, some increase in membership was found in the schemes using Automatic Enrolment and Active Decisions, but less so in schemes using Streamlined Joining.

**Automatic Enrolment**

Automatic Enrolment was associated with increased pension scheme membership in all four case studies where this technique had been adopted within the previous two years. In two of these schemes, available data about enrolment rates for employees as they became eligible to join the scheme showed that high levels of membership were achieved among these employees: 80 per cent to 100 per cent of newly-eligible employees had been enrolled during the eight months or 23 months, respectively, following implementation of Automatic Enrolment, in line with the participation rates in the public service schemes studied.

**Active Decisions**

In the two schemes adopting Active Decisions, there was also some evidence to suggest that the enrolment technique led to an increase in membership levels. Other factors may also have been relevant however: the increase appeared to be greater in the scheme where employees were not required to contribute to receive a contribution from the employer. This employer also ensured that employees, in
some instances, received information and advice from an IFA about pensions, and in general were pressed to declare their intentions to join, or not.

**Streamlined Joining**

Streamlined Joining appeared to have had no consistent impact on participation rates across the pension schemes adopting it. Membership rates prior to the switch had been relatively low, and despite considerable simplification in the joining process, participation rates usually showed little change.

**Employers’ reasons for changing their scheme’s joining technique**

The study found that the employers’ objectives determined which joining technique was adopted:

- employers adopting Automatic Enrolment wanted to increase membership;
- employers switching to Streamlined Joining wanted to decrease administrative costs and control the burden of administering their schemes;
- employers implementing Active Decisions had two objectives. Having accepted that their contribution costs would rise as membership rose, they hoped to encourage employees to join the scheme by making the joining process less difficult; they also wanted to encourage employees to take more responsibility and make more informed choices about planning for retirement.

The case studies suggested that:

- two motivations dominated employers’ thinking as they considered changing their scheme’s enrolment technique – a desire to increase membership and a wish to control the costs and administrative burdens of operating the scheme;
- employers made their decisions to adopt a new technique with some reasonable expectations of what the different techniques might achieve;
- the impact of each technique was found to be broadly in keeping with the employers’ reasons for adopting it.

**Barriers to adopting Automatic Enrolment reported by employers**

Employers that had considered but rejected Automatic Enrolment or had used it briefly before moving back to the traditional technique highlighted three reasons for not adopting, or abandoning, Automatic Enrolment:

- fears that employees would react negatively to being enrolled without their knowledge or consent;
• expectations that the cost of employer contributions would rise to unsustainable levels as more employees were enrolled automatically, and that these costs would not be entirely offset by somewhat lower administrative costs and burdens;

• risks of enrolling employees whose personal circumstances meant it would be disadvantageous for them to join. Such worries centred on employees who might not stay long with the company or who might have made other provisions for income in retirement.

Barriers to joining workplace schemes reported by employees

Although changing to a non-traditional joining technique appeared to have some association with a rise in participation rates, depth interviews with employees showed that, regardless of joining technique, non-members had typically considered whether to join their workplace scheme. As a result, non-members reported that they had taken conscious decisions not to join or made the effort to opt-out if Automatic Enrolment was in use.

Reasons for not joining, which none of the enrolment techniques studied overcame entirely, pertained mainly to:

• more pressing financial needs, which persuaded some that they could not afford to join or should opt-out;

• lack of understanding or confusion about pensions, resulting in no action being taken to join;

• having (or anticipating having) other savings in place, such as another pension, a spouse’s pension or property, which some thought was a better solution than a pension.

Selecting an investment fund

Under Streamlined Joining and Active Decisions, having to select an investment fund before enrolment could be accomplished appeared to inhibit joining, because it posed choices for employees that some said they had found puzzling and difficult. Automatic Enrolment solved the problem by initially assigning members to a default fund from which they could subsequently move.

Inertia

Inertia – allowing confusion or uncertainty to lead to taking no action to join – was more evident among employees where Streamlined Joining was in use. Despite simplifying the joining process, Streamlined Joining appeared to have been less effective than the other two techniques studied in combating inertia. Although administrative data was limited and only a small number of Active Decisions schemes were available for study, participation rates appeared to have benefited from inertia where Automatic Enrolment was used, and Active Decisions challenged inertia with information, advice and chasing employees to declare a clear choice.
**Required employee contribution**

Required employee contributions were found to deter some employees from joining workplace pension schemes, regardless of joining technique and in public service and private sector schemes. In the schemes where employee-level administrative data were obtained, low paid and part-time workers were disproportionately affected. This was observable in a public service scheme using Automatic Enrolment and offering an employer contribution of 14 per cent, but with a six per cent required employee contribution.

**The importance of communications**

Communications, including those dedicated to pensions and those serving a wider purpose within the organisation, were central to implementing all three of the joining techniques studied.

Employees typically felt that they had been well enough informed to make a sound decision about joining their workplace scheme, particularly in public service organisations. Across all techniques, employees valued in-person communications for information, personal advice and problem-solving.

Employees reported that their need for information and advice about retirement planning was not reduced by the joining technique their scheme used. Nevertheless, greatly simplifying application forms lessened employees' need for help in completing them. In addition, deferring the choice of an investment fund, as Automatic Enrolment did, removed a barrier to understanding that could give rise to inertia in schemes using other techniques.

When the benefits available had not been well understood by employees, they tended not to join the scheme or opted out. Occasionally their judgements were based on inaccurate information, as when employees felt they could not afford to save into a pension, even when their scheme did not require employees to make a contribution.

**Saving enough for retirement**

Members as well as non-members across the schemes studied, commonly thought that they were not saving enough for retirement. Some had plans to remedy this situation, usually involving joining or saving more into a workplace scheme, but others were vague about what they would do. The newly-adopted enrolment techniques had not allayed these concerns or helped people formulate plans to save enough for retirement.

In nearly all of the case studies, only newly-eligible employees experienced the newly-adopted enrolment techniques; existing non-members were largely unaffected. Only one scheme automatically enrolled all employees.
In the schemes studied, joining techniques had changed fairly recently. Some associations with participation rates were quickly seen, but the techniques will need to be monitored over time to determine their long-term effects on the adequacy of savings for retirement in terms of persistency, contribution levels and ongoing take-up rates.

Policy implications

Findings from this mainly qualitative study are consistent with other evidence that suggests that Automatic Enrolment can be effective in increasing participation rates in workplace pension schemes.

In schemes using Automatic Enrolment and Active Decisions, four factors, in addition to the joining technique, appeared also to influence participation rates:

- the employer’s active commitment to increasing membership;
- ongoing in-person communications;
- the profile of the workforce in terms of pay and part-time working;
- employee contribution levels.
1 Introduction

This report details the findings from a multi-phase research project designed to evaluate three approaches to delivering increased pension savings in the UK.

The research was structured into three phases:

- exploratory research involved background interviews with expert observers of pension developments;
- qualitative case study research included 11 private sector schemes and two public service schemes that were using one of the joining techniques;
- qualitative research into barriers to change was based on 14 depth interviews with private sector employers who had considered but rejected, or in one case implemented but then moved away from, one of the joining techniques, Automatic Enrolment. It also consisted of two focus groups with Independent Financial Advisers (IFAs) to explore their attitudes to the enrolment techniques.

Appendix A on methodology provides more information on each phase of the evaluation, why particular approaches were chosen, and the substantive agenda that was pursued in each individual element.

This introductory chapter includes six main sections:

- Section 1.1 – policy background to the study;
- Section 1.2 – the three approaches to increasing scheme membership that were studied;
- Section 1.3 – evaluation objectives;
- Section 1.4 – design of the evaluation;
- Section 1.5 – strengths and limitations of the evaluation;
- Section 1.6 – the organisation of this report, chapter by chapter.
1.1 Evaluation of techniques which make it easier for people to join their workplace pension scheme: policy background

The Department for Work and Pensions’ (DWP’s) Command Paper ‘Simplicity, security and choice: Informed choices for working and saving’ (February 2004) stated that the Government planned to work with pension industry partners to evaluate a range of approaches to deliver increased pension savings in the UK.

An estimated 4.6 million employees could join an employer-based pension scheme but have not done so. Those who would receive an employer contribution risk missing out on significant employee benefits. The DWP wanted to test whether inertia was an important factor in stopping people joining schemes for which they are eligible, as opposed to actively deciding not to join the scheme. The technique traditionally used to enrol employees in workplace schemes places the onus on individuals to sign up and it can often involve an arduous application process. Could use of different enrolment techniques overcome inertia and increase participation among employees who were eligible to join?

In discussions with employers and providers, DWP found that the use of Automatic Enrolment with an opt-out is not uncommon in the UK, albeit less common in defined contribution (DC) than defined benefit (DB) schemes. But before this evaluation, there was limited evidence available that could provide a detailed understanding of the motivations, expectations and behaviour of employers who chose to adopt these techniques, or employees’ experiences of them. Consequently it was difficult to know which joining techniques worked best, why employers did or did not adopt a particular joining technique, and what barriers existed to the adoption of the techniques. This research was commissioned by the DWP to address these issues.

1.2 Three alternatives to traditional techniques of enrolling employees

No private sector DB schemes who operated the techniques and met the study’s recruitment criteria (summarised in Section 1.4) could be identified by providers, and so only DC schemes were included in the private sector section of the evaluation. Most of these 11 schemes had switched from traditional opt-in to enrol employees into the company pension scheme to one of three joining techniques – Automatic Enrolment, Streamlined Joining or Active Decisions – between February 2003 and

3 Family Resources Survey 2002/3.

4 There is one exception to this: one employer switched from Streamlined Joining to Automatic Enrolment.
September 2004. The two public service DB schemes studied had used Automatic Enrolment since they were launched over ten years previously and had not changed from a traditional opt-in.

The definitions of traditional opt-in and each of the three tested joining techniques are given in Table 1.1.

### Table 1.1 Descriptions of traditional opt-in and the three joining techniques evaluated

<table>
<thead>
<tr>
<th>Enrolment technique</th>
<th>Description of enrolment technique</th>
<th>Consequences for employees, if they choose to do nothing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional opt-in</td>
<td>The employee has to elect to join the scheme. No special measures are in place to ease or hasten</td>
<td>They are not enrolled in the scheme. (Positive affirmation)</td>
</tr>
<tr>
<td></td>
<td>the employee’s decision, and employees need to complete an application form, which may be lengthy,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>to join the scheme.</td>
<td></td>
</tr>
<tr>
<td>Automatic Enrolment</td>
<td>An employer operates an ‘opt-out technique’, or Automatic Enrolment, whereby they automatically</td>
<td>They are automatically enrolled in the scheme. (Negative affirmation)</td>
</tr>
<tr>
<td></td>
<td>enrol eligible employees in the workplace pension scheme without the employees having to make a</td>
<td></td>
</tr>
<tr>
<td></td>
<td>separate application for membership. Employees are able to opt-out of the scheme if they prefer,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>whether to make alternative provision or otherwise.</td>
<td></td>
</tr>
<tr>
<td>Streamlined Joining</td>
<td>The employee has to elect to join the scheme, but the complexity of the joining process is</td>
<td>They are not enrolled in the scheme. (Positive affirmation)</td>
</tr>
<tr>
<td></td>
<td>substantially reduced for the employee. For example, the application form may be very short, or</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the employee may have to do no more than provide a signature on a pre-populated form.</td>
<td></td>
</tr>
<tr>
<td>Active Decisions</td>
<td>New employees are required to make a decision on whether to join their employer’s scheme. The</td>
<td>Although doing nothing is not officially an option, if the employee does nothing they are not</td>
</tr>
<tr>
<td></td>
<td>joining form asks people to decide if they want to join the scheme: yes or no. These forms are</td>
<td>in the scheme. (Positive affirmation)</td>
</tr>
<tr>
<td></td>
<td>designed to make people think they have to make a decision between two alternatives: decide to</td>
<td></td>
</tr>
<tr>
<td></td>
<td>become a member or decide not to become a member of the scheme. Employees actively deciding that</td>
<td></td>
</tr>
<tr>
<td></td>
<td>they do not want to become a member are not enrolled, but nor are those who do nothing, i.e. they</td>
<td></td>
</tr>
<tr>
<td></td>
<td>fail to make a choice, despite the wording of the form.</td>
<td></td>
</tr>
</tbody>
</table>

### 1.3 Evaluation objectives

The evaluation was designed to address four main policy issues and to answer a number of subsidiary questions, as shown in Table 1.2.
Table 1.2  Policy issues addressed in the evaluation

<table>
<thead>
<tr>
<th>Evaluation issues</th>
<th>Specific policy questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>How well do the three enrolment techniques – Automatic Enrolment, Streamlined Joining and Active Decisions – work in the UK, overall?</td>
<td>What effects do the enrolment techniques have on scheme take-up, contribution rates, investment choices and persistency, if it is feasible to measure it?</td>
</tr>
<tr>
<td>Which of the three techniques works best at increasing take-up and contribution levels, and what circumstances support or enhance their effectiveness?</td>
<td>In addition to the joining techniques, how influential are employee communications, default contribution rates and default investment choices, for instance?</td>
</tr>
<tr>
<td>What are the effects for individuals of joining pension schemes in the different ways?</td>
<td>Are individuals making an ‘informed choice’?</td>
</tr>
<tr>
<td>What are the reasons for some employers choosing not to adopt these joining techniques?</td>
<td>Are those who join aware that they are members, and are they satisfied that the right choice has been made?</td>
</tr>
<tr>
<td>What are the barriers and issues that deter these employers?</td>
<td>Do those who opt-out understand what they have done?</td>
</tr>
</tbody>
</table>

1.4  Design of the evaluation

The three phases of the evaluation are summarised in Table 1.3, and the methodology used in each is described very briefly. Further detail on the study methodology is available in Appendix A.

The private sector employers that took part in Phase 2, case studies, were recruited to meet criteria that are described in fully in Section A.3.1. These criteria ensured that:

- each case study focused exclusively on the employer’s main open scheme;
- all members of this scheme received some level of employer contribution; in some schemes, members also had to make contributions at or above a minimum level;
- the scheme had switched from a traditional opt-in joining technique5 to one of the three enrolment techniques between four and 18 months prior to the evaluation6;

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5 Except in one case where the switch was from Streamlined Joining.

6 One employer switched from traditional opt-in to Automatic Enrolment two years prior to the evaluation.
• no other significant scheme changes, such as changing the employer contribution, the minimum employee contribution, or the eligibility requirements for employees to join the scheme, were made at the same time as the enrolment technique was changed.

Of the 11 private sector employers recruited, four operated Automatic Enrolment, five operated Streamlined Joining and two operated Active Decisions.
## Table 1.3  The design of the evaluation

<table>
<thead>
<tr>
<th>Phase 1 Exploratory research</th>
<th>Phase 2 Qualitative case studies</th>
<th>Phase 3 Barriers to change</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 04 – March 05</td>
<td>September 04 – June 05</td>
<td>January 05 – April 05</td>
</tr>
</tbody>
</table>

**Background interviews with experts and practitioners**
- Twelve face-to-face depth interviews with representatives from organisations selected to provide eight broad perspectives:
  - Government;
  - Providers;
  - Professional associations;
  - Public service organisation employers;
  - Private sector employers;
  - Regulatory agencies;
  - Employees;
  - Academic research on pensions.

**Case study recruitment**
Liaison between DWP, research team, providers and employers, to identify schemes that had switched from traditional opt-in to one of the enrolment techniques studied and fulfilled the eligibility criteria.
Thirteen employers recruited: 11 private sector DC schemes, and two public service DB schemes.

**Private sector qualitative interviews**
Face-to-face depth interviews with 30 scheme-level respondents, two or three in each of the 11 schemes studied:
- Employers’ scheme administrators (Pensions, Payroll or HR Managers; Finance Directors);
- Providers;
- Scheme IFAs.
Telephone depth interviews with 69 employees from eight of the 11 schemes, including both members and non-members of the pension scheme.

**Administrative data collection**
Where possible, anonymised payroll data were collected from employers on individual employees eligible to join the scheme, to measure the impact of changing the joining technique on participation rates, employee contributions and membership profiles of employees before and after the change; and in public service organisations, to compare the profile of members and non-members.

**Recruitment of Rejecters**
Private sector DC schemes that were open, paid an employer contribution, and had considered but rejected.
Automatic Enrolment were identified by screening a sample of 950 businesses
Fourteen employers agreed to take part in the study, out of 57 that were identified as being eligible to do so.

**Rejecter interviews**
Fourteen telephone depth interviews, one with each scheme’s main internal manager or director, e.g. Payroll, HR or Finance Directors.

**IFA focus groups**
Two focus groups, one in London and one in Leeds, each with six to eight IFAs from different organisations who had worked with companies that had considered or used one of the tested enrolment techniques, but who had no connection with the case studied schemes.
Discussions focused on barriers to adoption of the joining techniques.
1.5 Strengths and limitations of the evaluation

1.5.1 Drawing wider conclusions based on qualitative data

A case study approach was adopted to gain a rich and detailed understanding of a small number of schemes from multiple perspectives. Findings from this small scale evaluation – the first to report UK data on enrolment techniques – present a valuable insight into how these joining techniques work within an organisation and give a useful indication of some of the barriers that may be encountered by other employers or employees.

The study was not designed to be representative of all employers, and schemes who met the recruitment criteria were selected by pension providers. Therefore schemes selected for case study are not representative and it is not possible to make any predictions on what the take-up or impact of these joining techniques might be at a national level or suggest that these findings may be generalised to similar settings.

Similarly, although we endeavoured to conduct employee interviews with a range of employees, they were chosen by their employer according to quotas based on income, age and gender and whether they had become eligible to join their workplace pension scheme before or after the joining technique changed. Therefore, due to the method of sampling, employees interviewed across all the case studies are not representative of all employees within their organisation or all employees nationally.

1.5.2 Circumstances surrounding the change in enrolment

Case studied schemes were selected because they changed only their joining technique and none of the other key aspects of the scheme, such as contribution levels or employee eligibility requirements. This made it easier to isolate the impact of these changes, but other, more complex circumstances surrounding the schemes were found to vary greatly. Outcomes varied as a result, even among schemes adopting the same joining technique.

1.5.3 Administrative data

The administrative data that could be provided were of uneven quality and completeness. This severely limited the analysis that could be carried out, and reduced the base for the analyses that were done. Section A.6 of Appendix A details these problems.

1.5.4 Measuring persistency

Since all schemes in the study changed enrolment technique relatively recently – in almost all cases, no more than 12 or 13 months before this evaluation began – and

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7 See Table A.5 for eligibility requirements for schemes.
since most employees who were enrolled under the techniques were newly eligible, a longer timeframe will be needed to assess both the persistency and impact of the technique in private sector schemes.

1.5.5 Possible future impact of the Distance Marketing Directive

In the schemes that were studied, decisions to change joining techniques were made before the Distance Marketing Directive (DMD) was implemented (see Section 6.3). Therefore the DMD did not influence the decisions these employers made to change, but in some cases it did influence or alter how the techniques, especially Automatic Enrolment, were implemented, following its emergence. If the DMD’s implications for enrolling employees in workplace schemes become clearer, schemes’ practices and participation rates may then change in ways this study cannot reflect.

1.6 Report plan

This volume combines findings from all phases of the research. After the conclusions in Chapter 2, Chapters 3 to 8 focus on results from the private sector case studies. Chapter 9 features the employers who considered but rejected Automatic Enrolment and the views of IFAs on the barriers to change. Chapter 10 contains results from the two public service schemes studied.

The exploratory interviews with experts, which took place in Phase 1, informed the later stages of the study, but no single section of this report is dedicated to presenting the hypotheses and themes that emerged from these interviews.

1.6.1 Summary of chapters’ content

The topics covered in this report are organised as follows.

- Chapter 2, Conclusions, summarises findings to address the study’s four main objectives.

- Chapter 3 provides brief portraits of the 11 private sector schemes that were case studied. Instead of following a standard agenda, the portraits are intended to highlight scheme-specific circumstances, characteristics and influences that appear to have affected implementation of the techniques and participation rates in each scheme. Portraits of the two public service schemes are included in Chapter 10.

- Chapter 4 examines the motives behind the adoption of the enrolment techniques, and compares employers who implemented Automatic Enrolment, Streamlined Joining and Active Decisions.

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8 This issue is discussed in ‘Automatic Enrolment in workplace pension schemes: Guidance on the regulatory framework’ which can be found on the internet at www.pensionsatwork.gov.uk or hard copies are available from 0845 7313233 - ISBN: 1-84388-592-1.
Chapter 5 looks at the role played by providers and IFAs in initiating and implementing change.

Chapter 6 shows how Automatic Enrolment, Streamlined Joining and Active Decisions were implemented, focusing on the process of change, the effort employers invested in implementing the new techniques, the role and impact of printed and in-person communications, and the impact of the DMD.

Chapter 7 examines the impact that Automatic Enrolment, Streamlined Joining and Active Decisions had on employees' attitudes to their company's pension scheme and on the actions they took after the joining technique had changed. In particular, this chapter examines the extent to which the newly-adopted techniques affected employees' propensity to join the pension scheme, their contributions and choice of an investment fund, reasons for not joining, and their views about the adequacy of their arrangements for retirement.

Chapter 8 examines the impact on employers of having changed enrolment technique, particularly in relation to their motivations and expectations. It describes how the change affected employers' administrative costs and burdens, and how the change affected relations with employees.

Chapter 9 is devoted to the barriers to change, as revealed by interviews with employers that had considered but rejected Automatic Enrolment. This chapter incorporates findings from the IFA focus groups conducted as part of Phase 3 of the study, examining the attitudes of IFAs.

Chapter 10 looks at the operation of Automatic Enrolment in two public service schemes to understand how participation rates and membership profiles behave over the long-term in schemes using Automatic Enrolment; why some employees opt-out of Automatic Enrolment schemes; and how Automatic Enrolment has been communicated to employees and supported in other ways so it remains an acceptable joining technique over the longer-term.

1.6.2 Appendix

Appendix A describes the evaluation methodology for all phases of the research, and discusses the difficulties that were experienced during the collection of administrative data from employers, the consequences for the analysis, and implications for future data collection exercises.

Copies of the topic guides used in the study are available on the DWP website9.

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2 Conclusions

This programme of research evaluated Automatic Enrolment and two other joining techniques, Streamlined Joining and Active Decisions, which make it easier for people to join their workplace pension scheme.

The main objectives of the evaluation were to answer four broad questions.

**How well do these three enrolment techniques work in the UK context?**

- What effects do they have on scheme participation rates, contribution rates, investment choices, and persistency, if it is feasible to measure it?

**Which techniques work best, and what circumstances support or enhance their effectiveness?**

- In addition to the joining techniques, how influential are employee communications, default contribution rates and investment choices, for instance?

**What are the effects for individuals of joining pension schemes in the new ways?**

- Were they making an ‘informed choice’?
- Were those who joined aware that they were members and were they satisfied that the right choice had been made?
- Did those who opted out understand what they had done?

**Why have some employers chosen not to adopt these joining techniques?**

- What are the barriers and issues that deter these employers?

Two cross-cutting questions were central to the way the study was organised and to the evidence that was gathered in interviews and from schemes’ administrative data.
Conclusions

First, as stated in the Department for Work and Pensions’ (DWP’s) specifications for the project, ‘In many cases, it is simply inertia that stops people joining their pension scheme, as opposed to them actively deciding not to join a pension scheme.’ Was inertia the main deterrent to joining work-based pension schemes, and did the joining techniques overcome it, some better than others?

Second, the study included only schemes whose members benefited from contributions made by their employer. In such schemes, increases in participation rates increase employers’ contribution costs. How influential was this in employers’ decisions about adopting new joining techniques, especially when employers decided to adopt Automatic Enrolment?

Conclusions are organised around the study’s four main objectives.

- Section 2.2 looks at the impact of the techniques on participation rates, employee contributions and investment fund selection, and at the impact of the change process itself;
- Section 2.3 focuses on the communications that supported the joining techniques and their importance to the outcomes each achieved;
- Section 2.4 is devoted to the experience of individual members and non-members, and the extent to which they made informed choices;
- Section 2.5 examines the barriers to adopting the techniques, particularly Automatic Enrolment, and the reasons for rejecting Automatic Enrolment among employers who had considered it before deciding to carry on using the traditional opt-in technique that places the onus on employees to join;
- Section 2.6 sets out potential pointers to action that have been drawn from the results of the study.

Before considering conclusions, however, the nature of the evidence that was used in this evaluation should be noted. As each case study in the evaluation faced very different circumstances, findings for each case study should be judged solely in the context of their own circumstances. Section 1.4 in the Introduction summarises the design of the evaluation, and Section 1.5 discusses in more detail the strengths and limitations of the evaluation that must be considered before drawing wider conclusions about the schemes featured in this study. Appendix A describes the methodology in detail.
2.1 The nature of the evidence and its limitations

This study relied primarily on qualitative evidence:

- case studies of 13 schemes;
- two focus groups with Independent Financial Advisers (IFAs);
- telephone depth interviews with 14 employers who had considered but rejected Automatic Enrolment or, in one case, operated it briefly but later rejected it.

Like all qualitative data, this material was rich in detail and subjective insights, but it was not intended to support quantitative analysis. Case studies provided different perspectives on the same phenomena, but they were not representative of all pension schemes, or even all pension schemes adopting the techniques studied. To assess the impact of changing the joining technique, only schemes where nothing other than the joining technique had changed were studied. Many schemes that were ineligible for this study had changed their joining technique at the same time as other changes were being made, for example: changing the rules about eligibility to join, or altering the contribution made by the employer or required from members. All of these could have influenced participation rates. The views of employers and other scheme participants who were interviewed cannot therefore be considered to be representative of all employers nationally. Similarly, employees' views cannot be generalised to all employees within the organisations studied or to all employees nationally.

All private sector schemes studied except one had changed joining technique between February 2003 and September 2004 and all were studied as from January 2005, allowing a minimum of four months to pass before the effects of the change were assessed. Had more time passed after the changes occurred, it may have been possible to assess persistency with better quality data and possibly observe more change in employees’ contributions. As it was, persistency was impossible to evaluate. There was little, if any, evidence of employees’ altering their contributions or beginning to make them, a finding covered in Section 2.2.3 and in more detail in Chapter 7.

In addition to qualitative case study interviews, conclusions have drawn on schemes’ administrative data, which were generated in part by employers and in part by providers. No two schemes did this in the same way or with uniform completeness or accuracy. Section A.6 of Appendix A describes the difficulties encountered in dealing with the administrative data that schemes were able to make available for study. These difficulties severely limited the conclusions that could be drawn across the cases, and shortfalls in administrative data made it impossible to draw factual conclusions about the impact of changing the joining technique in some cases.

Despite these limitations it has been possible to explore the effectiveness of the three joining techniques to maximising participation in work-based pension schemes and to shed some light on the barriers to change that exist.
2.2 Impact of the joining techniques

Decisions to change enrolment techniques were voluntary, and the motivations or objectives of employers were the main determinant of which technique was adopted. The case studies suggested that decisions about adopting a new technique were made with some reasonable expectations of what the new technique might achieve. The impact of each technique was broadly in keeping with the employers’ reasons for adopting it.

2.2.1 Reasons to change

Case study employers typically adopted the joining techniques for two reasons, as shown in Chapter 4:

- to increase pension scheme membership for reputational gains externally and goodwill gains internally;
- to reduce the administrative costs and burdens of traditional opt-in.

Employers had not estimated the administrative savings they expected to achieve or calculated how such costs changed under a new enrolment technique. Although employers generally felt that something positive had been achieved in this area, they could not tell whether any increases they experienced in employer contributions were offset by reduced administrative costs.

Automatic Enrolment

Automatic Enrolment was adopted by employers wanting primarily to increase membership of their schemes. They believed that such an inclusive scheme would promote goodwill for the firm internally and externally. They accepted that their employer contribution costs would rise as membership rose, because they thought membership of a pension scheme was a good thing in its own right.

Some of those switching to Automatic Enrolment did so in the wake of closing a Defined Benefit (DB) scheme and opening a Defined Contribution (DC) scheme that used the traditional joining technique. When it became clear that participation rates in the new DC scheme were lower than in the DB scheme that may have had a more generous employer contribution, some employers, who thought it was their duty to offer a scheme that most employees would join, adopted Automatic Enrolment as a way of trying to ‘play fair’ by employees who could no longer join the DB scheme.

Streamlined Joining

In contrast to those adopting Automatic Enrolment, employers who adopted Streamlined Joining were primarily motivated by a wish to reduce the costs and control the burden of administering their schemes, especially the inconvenience of dealing with errors and omissions arising in the application process, and the difficulties of sharing data management responsibilities with providers. For these
employers, the opportunity to reduce administrative costs and shift administrative burdens to providers argued for change, just when providers were seeking to take control and streamline some aspects of enrolment and their service to members through electronic channels.

**Active Decisions**

Motives for adopting Active Decisions were consciously mixed: employers hoped that membership would increase and were prepared for their costs to rise if it did, but they also wanted employees to be jointly responsible with them for their own wellbeing in retirement. As a secondary benefit, they wanted to cut their own administrative costs. IFAs remarked in the focus groups that adopting Active Decisions was a defensive choice. The employers using it, however, had not adopted it for self-protective reasons, but there was some evidence that where Automatic Enrolment as well as Active Decisions had been considered, Active Decisions had been adopted because employers thought it infringed least on employees' autonomy.

### 2.2.2 Impact of joining techniques on participation

Automatic Enrolment, and Active Decisions to some extent, were associated with increased participation rates after the change, as discussed in detail in Section 7.1, but other factors including a required employee contribution, supporting communications and employer commitment also influenced the outcomes achieved.

Where the administrative data were available from private sector schemes adopting a new enrolment technique, the demographic profiles of members before and after the change were not appreciably different in terms of age, gender or income. Section 7.2 gives more detail.

**Automatic Enrolment**

Increases in participation rates made under Automatic Enrolment were present across the four cases for which administrative data on participation rates before and after the change were available. The scale of the increases achieved by the schemes that adopted Automatic Enrolment varied quite considerably, however, and variation in the gains that occurred appeared to depend on scheme-specific factors. These included the quality of the supporting communications, efforts to include non-members who were not recent recruits to the company, a required employee contribution in one of the schemes that provided administrative data and a cash-in-lieu alternative to the employer’s contribution in another.

**Streamlined Joining**

Streamlined Joining appeared to have no consistent impact on participation rates across the pension schemes adopting it. Despite considerable simplification in the joining process, membership as a proportion of those eligible to join usually changed very little. This suggests that simplification alone was insufficient to boost membership in a reliable way, even when it was as dramatic as reducing application forms of over 20 pages to two pages.
Active Decisions

In the two schemes adopting Active Decisions, there was also some evidence to suggest that the enrolment technique led to an increase in membership levels, although with only two cases available for study, this result must be interpreted with extreme caution.

Other factors may also have been relevant: the increase appeared to be greater in the scheme where employees were not required to contribute to receive a contribution from the employer. This employer also ensured that employees, in some instances, received information and advice from an IFA about pensions, and in general were pressed to declare their intentions to join, or not. Being smaller and mainly desk-based provided more opportunities for face-to-face communications, including many one-to-one advisory meetings supported by the employer.

The change was more modest in the case of a large employer with a dispersed workforce whose scheme had a required employee contribution of three per cent, and whose size and nature of business might have caused difficulty in communicating with employees.

2.2.3 Impact of joining techniques on employee contributions

There was little, if any, evidence of employees’ altering their contributions or beginning to make them after schemes adopted the new techniques, but it is difficult to draw robust conclusions since so few schemes were able to provide administrative data on this point, as shown in Section 7.3. There was no evidence that employers had expected employee contribution levels to rise or that communications promoted this more vigorously after the change.

2.2.4 Impact of required employee contributions on participation rates

Case studied schemes changing to Streamlined Joining commonly had a required employee contribution before and after the change, whereas in Automatic Enrolment schemes a required employee contribution was less common. This may, to some extent, explain the difference between participation rates across schemes operating the different joining techniques. In the large Active Decisions scheme where a required employee contribution was in place, the participation rate grew, but more modestly than in the smaller Active Decisions scheme that did not require employees to contribute.

Even in the two public service DB schemes that were studied, which offered fairly generous employer contributions, the required employee contribution could have provided an incentive for lower paid and short-term staff to opt-out, as discussed in Chapter 10. These schemes used Automatic Enrolment and required employees to contribute.

10 In the NHS trust for example, 27 per cent of those on a salary of less than £10,000 opted out, compared to 17 per cent of those on a salary of £10,000 to £20,000 and just six per cent of those on a salary of £20,000 to £30,000.
contribute five or six per cent of salary. Although these schemes had high participation rates, opt-outs were concentrated disproportionately among those earning less than £20,000 a year. Lower paid non-members who were interviewed across all types of schemes reported that they felt that their income was insufficient to allow them to save into a pension, or that other financial obligations had priority.

Employers who had considered and rejected Automatic Enrolment (the Rejecters) and IFAs in the two focus groups thought that Automatic Enrolment was likely to be incompatible with the ‘informed consent’ needed to operate a required employee contribution. Therefore, Automatic Enrolment might be ruled out unnecessarily by employers whose schemes require employees to contribute.

2.2.5 Impact of joining techniques on fund selection

Under traditional opt-in and under Streamlined Joining and Active Decisions, employees in the schemes studied were obliged to select a fund to invest in at the point of enrolment, although typically a default fund was available for employees who did not wish to make a choice. This part of the joining process, as described in employees’ interviews, was especially likely to cause confusion, raise anxiety, and persuade employees that they lacked the knowledge to make the choices involved in joining a pension scheme. Providers and IFAs reported that most employees joining under Streamlined Joining and Active Decisions tended not to exercise their option to select anything other than a default fund anyway, which they pointed out was usually a lifestyle fund and therefore the right choice for the majority of employees.

Automatic Enrolment removed fund selection as a deterrent to joining by automatically enrolling new members in a default fund. After enrolment, it was possible for members to choose an alternative fund, as noted in Section 7.4. Automatically enrolled employees who were interviewed were not critical of this procedure, but some of those who experienced other techniques said that selecting a fund had been difficult or off-putting.

Switching funds was rare, regardless of joining technique. According to the providers and IFAs who were interviewed, members were likely to stay in the default fund whether they were automatically enrolled in it or had selected the default fund themselves under Streamlined Joining or Active Decisions. Additionally they said that those who had chosen a fund with personal relevance and appeal were likely to stay with this first selection. Members who were interviewed were not contemplating changing funds.

2.2.6 Implementing the joining techniques

Across all three techniques, implementing the new joining technique was reported to have been straightforward and largely trouble-free, executed at middle management level and accomplished within two to four months. Neither the decision-making process nor the implementation process had posed difficulties of the sort that might deter other companies considering a change in enrolment technique. The implementation process is covered in Chapter 6.
Employers had generally not considered alternative joining techniques to the one they adopted; providers and IFAs did not encourage them to do so. Perhaps because the decisions were not contentious or complicated by alternatives, external advice was rarely sought by employers. Where they did seek such advice, employers consulted the pension scheme’s actuary or the firm’s lawyers. When actuarial or legal skills were available in house, advice was generally taken from company sources.

2.3 Communications supporting the new joining techniques

All three techniques simplified and changed the nature of the joining process, most dramatically Automatic Enrolment, where the consequences of employees’ taking no action were reversed. Communications were central to implementing all three of the new joining techniques, as discussed in Sections 6.4, 6.5, and 6.6. This section deals with three key aspects of communications in organisations that changed joining techniques: induction of new employees, application forms for joining the pension scheme, and information and advice about retirement planning.

2.3.1 Induction

Typically the case studied organisations took the same approach to providing information to new employees about the pension scheme under the new joining technique as under traditional opt-in.

A printed pension information pack was usually sent to new employees with the company’s induction pack. More rarely, induction meetings were held with groups of new employees that included a session devoted to the pension scheme and how to join it (or how to opt-out).

Using the induction process as a communications channel focused enrolment efforts on new employees rather than non-members among existing staff, but induction had always been an occasion for informing employees of their pension rights. In some cases where pension briefings were part of a company’s induction programme, non-members among the existing staff were invited to attend.

If employees chose not to join when they became eligible or opted-out, it was still possible for them to join the scheme at a later date, regardless of the joining technique\(^{11}\). However these employees usually had to take the initiative and ask to join. There were some employers however that made attempts to encourage non-

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\(^{11}\) In only one exceptional case were employees locked out of the scheme if they did not join on becoming eligible. This was due to scheme-specific regulations relating to death benefits and medical insurance, which made it prohibitive for an employee to join subsequently without taking a full medical examination.
members to join, and in exceptional cases non-members were identified individually and pursued over time using what were described as ‘direct mail’ techniques and asked to reconsider joining by the provider.

Employees tended to receive the same documents before and after implementation of the new joining techniques, typically:

- key features handbook;
- membership handbook;
- explanation of fund choice;
- decision trees, where appropriate, provided by the Financial Services Authority (FSA) to help people factor their personal circumstances into decisions about pensions.

### 2.3.2 Application and opt-out forms

Companies using Automatic Enrolment no longer required an application form, but they did need to tell new employees how Automatic Enrolment worked. This was commonly done in personally-addressed letters that also explained the disadvantages of opting-out.

Instead of application forms, companies adopting Automatic Enrolment required a mechanism by which employees could opt-out of membership. They also needed to modify contracts of employment to recognise that membership of the pension scheme was an entitlement employees agreed to undertake, and where appropriate deductions would be made from wages, as shown by their signature on the contract, unless they opted-out.

Providers and IFAs reported that the mechanisms for opting-out were generally designed to make it difficult to do. In many cases the initial pension pack contained no opt-out form, which might be confused with a take-up form. Instead, employees had to take the initiative to opt-out by ringing the provider or writing to the employer within a short time. Only after enrolment were new members sent a cancellation form.

In some schemes where Automatic Enrolment and Active Decisions were adopted, employees who chose not to join the scheme were asked to sign waivers drawn up to ensure that employees were on record as having been informed of what they were giving up and accepting the loss of benefits. Spouses might also be obliged to sign the waiver, although they were not forced to do so in order to opt-out.

Overall, communications specifically adapted to Automatic Enrolment were effective because they were:

- built on trying ‘to use inertia to the employee’s best advantage’ and to a lesser extent, on stark language warning of the consequences of opting-out. This seemed to reflect employers’ concerns to forestall action against them by employees who might wish in future to allege that they had been under-informed or misenrolled;
• drawn up in such a way that asked employees if they wanted to give up benefits, spelling out the consequences;
• minimal by design: eliminating the application form, requiring that employees request an opt-out form, and postponing the choice of an investment fund until after members had been enrolled.

Under Streamlined Joining and Active Decisions the need for employees to produce information that providers could obtain from employers, such as National Insurance number, was also removed, since the employer gave this information to the provider directly. These measures alone simplified the joining process for employees and in doing so reduced the potential for errors and omissions that employers and providers had to deal with when using traditional opt-in. Apart from shortening the application form and providing some help for employees to complete it however, communications in Streamlined Joining schemes were little different from those used under the previous joining technique. Combined as it was with a required employee contribution in some schemes and employers that emphasised maximising cost savings rather than membership, the unchanging nature of communications helped explain why participation rates changed little in schemes that adopted Streamlined Joining.

In schemes adopting Active Decisions, communications emphasised the requirement for employees to make a choice, one way or the other, to join or to remain outside the pension scheme. Although the application form ostensibly required employees to make a declaration, only one of the two employers using Active Decisions had chased employees who failed to reply.

2.3.3 Information and advice about retirement planning

Employees valued in-person communications for information gathering and for personal advice and problem-solving, regardless of joining technique, and in public service organisations as well as the private sector.

Simplifying application forms generally lessened employees’ need for help in completing them. In the case of Automatic Enrolment, deferring the need to select an investment fund until after enrolment removed a potential stumbling block from the process. Apart from these two effects, the need employees felt for information and advice about retirement planning was not reduced by the joining technique their scheme used.

The cost implications of more in-person and personally relevant communications were not acceptable to all employers, however. One of the burdens of administering their schemes that some employers wanted to minimise was providing in-person information and advice to employees, in group presentations or individually. Such meetings were difficult to arrange when shift patterns, production lines, multiple sites or off-site working made it hard to gather up employees, free them from work, or make them accessible individually to IFAs or providers. Since information about the pension scheme and joining it was usually provided as part of the induction
process, using an IFA to address groups of new employees only worked if significant numbers of staff were recruited at about the same time.

Members of Streamlined Joining and Active Decisions schemes who were interviewed did not appear to be more knowledgeable about planning for retirement or more involved in making decisions about their pensions than members of schemes that enrolled members automatically.

In the two public service schemes studied, good communications about pensions appeared to be more common than in the private sector, as discussed in Section 10.4. The organisation’s in-house pension manager was most often the source of information and advice. Employees of public service organisations generally said that they were well enough informed to have made decisions with which they were content, including those who decided to opt-out. Occasionally however, employees had not understood the contributory nature of their schemes, and were surprised and unhappy, they said, when deductions were made from their pay for a purpose they did not understand.

2.4 How individuals reacted to the new joining techniques

In focus groups, IFAs insisted that joining techniques could not be viewed in isolation but had to be considered in the context of employer contributions as an incentive to join, the individual circumstances of employees, and the quality and relevance of information available to employees, especially in-person communications. The employees who were interviewed, members and non-members alike, tended to confirm this view.

2.4.1 Why individuals did not join

The reasons employees gave for not joining their work-based pension schemes provide part of the answer to several of the most important questions that this study was designed to answer. Employees’ reasons for not joining generally fell into three categories:

- immediate financial needs with greater claim on earnings;
- inertia;
- having (or anticipating having) other savings in place, typically another pension or property.

In the case study interviews, many employees talked in terms of having made ‘calculated’ decisions based on their current financial circumstances.

- Could they afford to join and contribute, given their current income and outgoings?
- Did they have other savings and investments (or the intention to have them) that would cover their retirement needs?
Exceptionally, employees thought it would be necessary to make a contribution where none was mandatory, and decided not to join the scheme as a result. Such obvious factual errors were rarely apparent, but their occurrence suggests that more and better scheme-specific information was needed in some cases.

Required contributions have been seen to depress participation rates regardless of sector and joining technique (Section 2.2.4) but they appeared to depress participation rates most for lower paid and short-term staff. For such employees, pressures on current income may discourage joining a pension scheme.

2.4.2 Inertia

Inertia in various guises was a recurrent explanation for not joining a workplace scheme. In interviews with non-members, some admitted that they:

- were ‘too lazy’ to read the pension pack provided at induction;
- knew they ought to join a pension and intended to in future, but not right now; younger employees were more likely than older ones to express this view;
- allowed confusion about some specific aspect of the pension scheme to be an excuse for doing nothing about joining.

Where inertia was involved in employees’ failing to join a workplace pension scheme, two patterns emerged.

- Non-members mentioning inertia were more common where Streamlined Joining had been adopted. Application forms had been simplified in these schemes but other aspects of the enrolment process, including communications, had changed less than in schemes that adopted Automatic Enrolment and Active Decisions. It appeared that Streamlined Joining was a weaker tool for overcoming inertia than Automatic Enrolment or Active Decisions.
- Less commonly, employees whose inertia led them to remain non-members reported that prompting from their employers might have, or had in fact, caused them to join at a later stage. The ongoing communications about pensions in one of the Active Decisions schemes may be seen as one example from the case studies of how employers can prompt non-members to reconsider the case for joining. The employer that undertook what was described as a ‘sweep-up’ of non-members immediately before introducing Automatic Enrolment provides another example. In these two cases, employers reported that their efforts to extend the joining technique to existing employees had worked, at least on a small scale.

2.4.3 Informed choice

Employees who were interviewed knew their status as members or non-members of the workplace scheme. Although there was evidence of confusion about pensions generally, it was uncommon for employees to claim that they had made choices they regretted because they were not sufficiently well informed about their workplace scheme.
Those who had opted out of Automatic Enrolment schemes were generally content with their choice, saying they had acted to preserve current income. The default level for required employee contributions had surprised and dismayed some newly-joined members, however. These employees quickly discovered how to opt-out of the scheme or reduce their contribution from the default level to the minimum allowed.

Occasionally, employees said they had changed their minds and decided to join their scheme some time after first becoming eligible. This tended to happen, they said, because their personal circumstances had changed, not because they had become better informed about the pension scheme. To act as they did when circumstances changed would have required them to be aware of their workplace pension scheme and its merits.

Some non-members said that they would reconsider joining in future, if their circumstances changed. It was not clear if such thoughts arose from an objective calculation about the level of income that would allow the employee to join and possibly contribute to a pension scheme, or if these comments really reflected a form of inertia. If the former, they would provide a reason to question the merits of encouraging ‘one-time-only’ offers of pension scheme membership as a possible way of cutting through the tendency to put off joining indefinitely.

It would be naïve to assume that all non-members in the schemes studied made carefully reasoned calculations about the consequences of joining and contributing to a pension. What seemed clear, however, was that the joining technique made little difference to such calculations, although a required employee contribution did have some impact.

2.5 Why employers chose not to adopt the joining techniques, especially Automatic Enrolment

Since it was important to understand why employers had not adopted Automatic Enrolment, as well as why some had done so, telephone depth interviews were carried out with employers that had considered but ultimately rejected this enrolment technique, and two focus groups were conducted with IFAs that had some experience of working with other schemes that had considered but rejected one of the three enrolment techniques.

2.5.1 General barriers to change

The IFA focus groups and interviews with Rejecters of Automatic Enrolment suggested three sources of resistance to change in joining techniques:

- disinterest was a factor, in two forms: joining techniques were sometimes, but quite often among focus group IFAs, seen as having only a minor influence on participation, and if they were not being addressed as part of wider changes to a scheme, they were unlikely to be identified as something that needed to be improved or corrected;
• cost was an important source of resistance, also in two forms: expectations that moving away from traditional opt-in would drive up the employers’ contribution costs, and concerns that the change process itself might be disruptive, difficult and time-consuming;

• employers’ values were also influential, especially two beliefs: employees should have autonomy to decide if they wanted to join a workplace scheme (and acquiring the knowledge to make appropriate decisions would be good for them), and employees who were given benefits they did not understand would not repay their employers with greater loyalty, productivity and goodwill as ambassadors for the organisation.

2.5.2 Rejecters’ reasons for deciding not to adopt Automatic Enrolment

Although their views differed about the value of pension schemes and the duty of employers to provide generous and inclusive schemes, Rejecters agreed in their reasons for deciding not to adopt Automatic Enrolment, after having considered it. Their decisions were driven by three reasons, as discussed in more detail in Chapter 9:

• Rejecters feared that employees would react negatively to being enrolled without their knowledge and consent, and they did not want to violate employees’ autonomy. The prevalence of this thought demonstrates the extent of misunderstanding about how Automatic Enrolment was implemented. Worries about violating employees’ autonomy may have been heightened because they tapped into the view that Automatic Enrolment was unsuitable for schemes with required employee contributions. Twelve of the 14 Rejecters operated schemes that required contributions from employees;

• some Rejecters decided against Automatic Enrolment solely because they expected their contribution costs to rise to unsustainable levels, which they thought would not be offset by administrative cost savings or improved goodwill among employees;

• less commonly, Rejecters were concerned about the risk of enrolling employees whose personal circumstances meant that it would be disadvantageous for them to join. These concerns centred on employees who might not stay long with the company and those who might have made other provisions for income in retirement.

In addition, Rejecters occasionally worried about recourse if the default fund into which employees were enrolled performed badly.
2.6 Potential pointers for maximising membership of work-based pension schemes

This section gathers up the potential pointers to action suggested by the findings of this study.

2.6.1 Emphasise Automatic Enrolment and, to a lesser extent, Active Decisions

Automatic Enrolment and Active Decisions appeared to be associated with increased participation rates although the increases varied substantially in scheme-specific ways. Automatic Enrolment successfully used inertia to employees’ advantage, according to employers that adopted it, whereas Streamlined Joining appeared to be less effective at overcoming inertia, because simplifying application forms and procedures did not appear to be an effective way to raise participation rates on its own.

All three techniques need the support of integrated communications programmes that begin but do not end with the induction process.

2.6.2 Administrative costs are of interest to employers and thought should be given to quantifying these to promote changes in joining techniques

Saving administrative costs and controlling the burden of administering their pension schemes was one of two reasons for employers to change enrolment technique; the other was a commitment to increasing pension scheme membership. Since administrative cost savings may partially offset a rise in employers’ contribution costs when Automatic Enrolment and Active Decisions are used, it would be helpful to explore further the administrative cost savings that have been achieved after adoption of these techniques. If the administrative cost savings achievable as a result of adopting the joining techniques were made more quantifiable, those motivated to achieve such savings might be encouraged to consider a change.

2.6.3 Required employee contributions may discourage some from joining

The evidence from schemes where employee contributions were required – one out of four Automatic Enrolment cases, three out of five Streamlined Joining cases and one out of two Active Decisions cases – suggests that required employee contributions may deter some from joining, especially lower paid and short-term employees, no matter what the technique. This was also frequently the case in the public service schemes studied, where required employee contribution levels were higher than in the private sector schemes.

It is especially important if there is no required contribution for this to be communicated to employees because some can be put off joining if they assume, incorrectly, that they must contribute.
2.6.4 Communications are critical to successful implementation of Automatic Enrolment and Active Decisions in particular

Although employees who were interviewed commonly claimed that they had made informed decisions, the comments that were made were instructive. Employees want in-person information and advice about planning for retirement, pensions, and whether to join their workplace scheme. The personal relevance of the information provided was critical to employees’ sense that they could make the right decisions for the right reasons, as shown by resentful opt-outs when a public service scheme had not provided sufficient explanation of payroll deductions for required employee contributions in an Automatic Enrolment scheme. It also appeared that one shot of good information might not have been enough for many, at least in the Streamlined Joining scheme where only a single round of presentations followed the change.

IFAs are committed to providing such information and advice to ensure that individuals make sound decisions suited to their own circumstances. Good in-person communications appeared to be associated with an increase in participation rates. Streamlined Joining schemes, which were the least likely to enhance their written and in-person communications after the switch in enrolment, generally saw the smallest increases in membership.

A continuing supply of practical and personally relevant information about pensions also appeared to support joining under Active Decisions, e.g. a regular pensions newsletter, meetings with HR staff, and internet access to information about employees’ own pensions account.

After Automatic Enrolment, and to a lesser extent Active Decisions, has been implemented, some employers might be tempted to scale back their in-person programmes of information and advice. In some of the case studies, employers had acted on this temptation. Employees reported that they needed this information and advice to make sound decisions in the light of their own circumstances. Employers adopting Automatic Enrolment and Active Decisions may need to be reminded of this point.

Non-members who opted out of Automatic Enrolment or failed to join under the other techniques, said they might join, or in some cases had joined, the workplace pension scheme after prompting from their employer. This argues for including existing employees as well as new ones in some enrolment efforts, e.g. pensions sessions that occur during induction presentations, pensions newsletters, or regular ‘sweep-ups’ of non-members.

Selecting an investment fund was one of the most puzzling and difficult choices that employees faced in joining a pension scheme, and once enrolled in a fund, few switched. Automatic Enrolment allows employees to make their own choice of a fund after they become members, accomplishing this by enrolling them in a default fund until they decide to change. If this is deemed to be an acceptable consequence of Automatic Enrolment, it should be promoted as a solution to a problem that
appeared to inhibit joining: that a fund had to be selected before enrolment could be accomplished.

Since they may be consulted for advice when joining techniques are changed, pensions actuaries and lawyers, as well as IFAs, would make good candidates for DWP communications about the joining techniques.
3 Summary of the private sector case studies

This chapter provides brief portraits of the 11 private sector defined contribution (DC) schemes that were case studied. Each portrait summarises the circumstances and influences that appear to have affected participation rates in the scheme and highlights key characteristics of the scheme before and after the switch in enrolment technique.

The portraits have been ordered by enrolment technique adopted:

- Four Automatic Enrolment cases, AE1 to AE4;
- Five Streamlined Joining cases, SLJ1 to SLJ5;
- Two Active Decisions cases, AD1 and AD2.

The portraits highlight the key scheme-specific circumstances only, although each portrait includes a table detailing the scheme’s characteristics before and after the change.

3.1 Summary of changes in participation rates and scheme-specific circumstances

Before looking at the details of each scheme, it is helpful to summarise the nature of the scheme-specific circumstances which, in addition to the joining technique that was adopted, influenced participation rates.

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12 The month to which the ‘before’ and ‘after’ data pertain varies by employer. In most cases, data were sought for the month immediately before the switch, and for the most recent month before the case study took place. In some cases however, the ‘before’ data predate the switch by a few months, because not all employers hold historical data on a month-by-month basis.
The case studies show that Automatic Enrolment was associated with increasing participation rates\(^{13}\). The advent of Streamlined Joining in the cases studied did not coincide with appreciable increases in participation rates. Only two Active Decisions adopters were available for study, and in both cases the switch was associated with increases in participation rates, although the increase was far greater in one case than the other.

As explained in greater detail in the individual portraits and in Chapter 4, employers’ motives for adopting the new techniques can be summarised as follows:

- the case studied employers that adopted Automatic Enrolment wanted primarily to increase participation rates;
- Streamlined Joining was adopted by employers wanting to cut the costs and control the burdens of administering their schemes;
- employers adopting Active Decisions wanted to increase participation rates as well as employees’ involvement in planning for retirement.

Sections 3.2 to 3.12 show that changes in participation rates varied considerably, even among employers that used the same joining technique. This was due mainly to scheme-specific factors, including communications support and the possible existence of a required employee contribution. Overall, the case studies reveal the importance of seven scheme-specific factors:

- the employer’s commitment to increasing membership;
- the amount and structure of the employer’s contribution, e.g. whether matched to employees’ contributions;
- possibly the existence of required employee contributions;
- simplification of application forms and other procedures;
- the use of communications to support the change in joining technique;
- efforts made to reach employees who had not joined under the previous enrolment technique;
- industry within which the company operated and the demographics of the workforce, which in turn impacts on all of the other scheme-specific factors.

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\(^{13}\) As discussed in Section 7, participation rates themselves are based on overall membership levels among eligible employees within the organisations concerned, and not just the employees who experienced the new technique. The short timeframe for this study may underestimate the full impact for all joining techniques.
3.2 AE1 – Motor manufacturer

AE1 closed its defined benefit (DB) scheme in April 2002, offering instead a stakeholder pension (SHP). The enrolment technique was changed to Automatic Enrolment two years later in May 2004. Before the switch to Automatic Enrolment, the SHP participation rate was 25 per cent. This figure rose to 58 per cent after the change to Automatic Enrolment. Table 3.1 describes the characteristics of the SHP scheme, before and after the switch.

Issues relevant to AE1:

- the employer switched to Automatic Enrolment with the specific aim of increasing SHP participation rates as close to 100 per cent as possible. The employer believed that encouraging employees to join the scheme would have a positive impact on recruitment, retention and employer-employee relations;

- the decision to adopt Automatic Enrolment was made at board level; this reflected the importance the company gave to increasing participation in its pension scheme, as well as the need for board approval for the increased contribution costs;

- Automatic Enrolment was implemented through employment contracts: signing constituted an agreement to join the pension scheme and contribute. Upon receiving an employee’s first contribution, the provider sent out an information pack, and it was only at this stage that the employee was able to cancel the contract by filling in the supplied cancellation form;

- the default contribution under Automatic Enrolment was five per cent for the employee and seven per cent for the employer. Employees could reduce this percentage if they wished and the employer contribution would be reduced by the same percentage. The minimum required contribution was one per cent, corresponding to a three per cent employer contribution;

- if employees opted out, they were not allowed to enrol at a later time.

Table 3.1 AE1: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th>Scheme type</th>
<th>Pre-switch</th>
<th>Post-switch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrolment technique</td>
<td>Traditional opt-in</td>
<td>Automatic Enrolment</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>Minimum 1%</td>
<td>Minimum 1% Default 5%</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>Exceeds employee contribution by 2%; max 7%</td>
<td>Exceeds employee contribution by 2%; max 7%</td>
</tr>
<tr>
<td>Eligibility period</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Number of employees</td>
<td>5,400</td>
<td>4,996</td>
</tr>
<tr>
<td>Number of employees eligible to join SHP†</td>
<td>1,409</td>
<td>1,051</td>
</tr>
<tr>
<td>Number of members</td>
<td>346</td>
<td>604</td>
</tr>
</tbody>
</table>

† Employees were locked out of the SHP scheme if they opted out. Here, the total number of employees who had ever been eligible to join the SHP is shown.
3.3 AE2 – Financial services

AE2 closed its DB scheme to new members in April 2002, offering instead an SHP. In April 2004, the enrolment technique was changed from traditional opt-in to Automatic Enrolment. Following the switch, participation rates rose from 45 per cent to 62 per cent. Table 3.2 shows the SHP scheme characteristics, before and after the switch.

Issues relevant to AE2:

- when the company launched its new SHP scheme, using traditional opt-in, it offered a cash-in-lieu alternative to the employer’s contribution to employees who did not join. The employer saw this as part of the company’s efforts to ‘play fair’ after closing the DB scheme, but failed to anticipate that the employer’s ten per cent pension contribution, if taken instead as a ten per cent pay increase, even though subject to tax and National Insurance Contribution deductions, would provide a powerful incentive for employees to stay out of the pension scheme;

- consequently the employer decided to adopt Automatic Enrolment because of the adverse effect the cash-in-lieu option was having on membership of the SHP. Under Automatic Enrolment, employees had to opt-out of the scheme within 30 days to receive cash in lieu;

- the scheme participation rate did increase with the adoption of Automatic Enrolment, even though a financial incentive to opt-out still existed.

Table 3.2 AE2: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch</th>
<th>Post-switch</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 2004</td>
<td>December 2004</td>
</tr>
<tr>
<td>Scheme type</td>
<td>SHP</td>
<td>SHP</td>
</tr>
<tr>
<td>Enrolment technique</td>
<td>Traditional opt-in</td>
<td>Automatic Enrolment</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>No minimum</td>
<td>No minimum</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Eligibility period</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Number of employees</td>
<td>481</td>
<td>473</td>
</tr>
<tr>
<td>Number of employees eligible to join SHP</td>
<td>128</td>
<td>151</td>
</tr>
<tr>
<td>Number of members</td>
<td>57</td>
<td>94</td>
</tr>
</tbody>
</table>

3.4 AE3 – Healthcare

The SHP offered by AE3 was set up in May 2001. The switch from traditional opt-in to Automatic Enrolment took place in August 2004. Before the switch the
participation rate was 86 per cent, perhaps due to the absence of a required employee contribution; it rose to 92 per cent after Automatic Enrolment was adopted. Table 3.3 provides a detailed description of the scheme characteristics before and after the adoption of Automatic Enrolment.

Issues relevant to AE3:

- this employer operated in a poorly paid part of the healthcare sector; the employer explained that employees typically earned between £10,000 and £20,000 a year. As a result of this, the employer believed the scheme it offered was a generous one. It thought that providing even a modest contribution to employees’ pensions would have a positive effect on staff recruitment and morale, and help the company cope with competition for staff from the public sector. The employer said it was committed to 100 per cent membership among newly-eligible employees;

- Automatic Enrolment was only used to enrol newly-eligible employees, and did not affect the existing 112 non-members who had joined the company under traditional opt-in;

- the employer automatically enrolled all newly-eligible employees between August 2004 and November 2004. In November, the employer became aware of the Distance Marketing Directive (DMD) and, on advice from the provider, believed that a new clause explaining Automatic Enrolment had to be added to contracts of employment. The new employment contracts were not ready until January 2005, and consequently there was a period between November 2004 and January 2005 when the use of Automatic Enrolment was suspended. In the interim, employees had to provide a signature on joining the scheme. This was not a full-scale return to traditional opt-in, but the employer estimated that the scheme ‘lost’ 43 potential members as a result of Automatic Enrolment’s implementation being interrupted;

- changing to Automatic Enrolment had a positive impact. Potentially, participation rates following the adoption of Automatic Enrolment could have been higher, since no initiatives were taken to enrol existing non-members, and because of the temporary suspension of Automatic Enrolment due to the DMD. Both the employer and Independent Financial Adviser (IFA) were confident that once the DMD issue was fully resolved they would achieve as close to 100 per cent participation rates among newly-eligible employees as possible.
### Table 3.3 AE3: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch</th>
<th>Post-switch</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>April 2004</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scheme type</strong></td>
<td>SHP</td>
<td>SHP</td>
</tr>
<tr>
<td><strong>Enrolment technique</strong></td>
<td>Traditional opt-in</td>
<td>Automatic Enrolment</td>
</tr>
<tr>
<td><strong>Employee contribution</strong></td>
<td>No minimum</td>
<td>No minimum</td>
</tr>
<tr>
<td><strong>Employer contribution</strong></td>
<td>Team managers: 4%</td>
<td>Team managers: 4%</td>
</tr>
<tr>
<td></td>
<td>All others: 2%</td>
<td>All others: 2%</td>
</tr>
<tr>
<td><strong>Eligibility period</strong></td>
<td>2 years</td>
<td>2 years</td>
</tr>
<tr>
<td><strong>Number of employees</strong></td>
<td>1,500</td>
<td>1,930</td>
</tr>
<tr>
<td><strong>Number of employees eligible to join SHP</strong></td>
<td>788</td>
<td>970</td>
</tr>
<tr>
<td><strong>Number of members</strong></td>
<td>678</td>
<td>893</td>
</tr>
<tr>
<td><strong>December 2004</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 3.5 AE4 – Construction

AE4 had offered a DB scheme, which was closed in July 2001. An SHP scheme was offered in its place. The SHP had been using Streamlined Joining when it changed to Automatic Enrolment in February 2003. Participation rates rose from 88 to 100 per cent following this change in enrolment technique.

**Issues relevant to AE4:**

- the employer thought the pension scheme was an important part of the overall benefits package it offered, which included accident and life cover and holiday pay. However the pension benefits offered were in line with industry-wide agreements, and the employer relied on the provider to make and implement recommendations regarding the scheme’s management. The decision to close the DB scheme and replace it with the SHP was taken at industry level;

- it was the provider’s desire, as much as the employer’s, to switch from Streamlined Joining to Automatic Enrolment to increase take-up and minimise administrative difficulties and costs. This scheme’s participation rate before the introduction of Automatic Enrolment was reported by the provider already to be unusually high, compared to the provider’s other construction industry clients;

- Table 3.4 shows that the switch to Automatic Enrolment successfully raised membership levels to 100 per cent, albeit from an initially high level.

Table 3.4 provides a detailed description of the scheme characteristics before and after the adoption of Automatic Enrolment.
### Table 3.4  AE4: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch February 2003</th>
<th>Post-switch January 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme type</td>
<td>SHP</td>
<td>SHP</td>
</tr>
<tr>
<td>Enrolment technique</td>
<td>Streamlined Joining</td>
<td>Automatic Enrolment</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>No minimum</td>
<td>No minimum</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>Minimum £2.50 per week, matching up to £10</td>
<td>Minimum £2.50 per week, matching up to £10</td>
</tr>
<tr>
<td>Eligibility period</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Number of employees</td>
<td>335</td>
<td>303</td>
</tr>
<tr>
<td>Number of employees eligible to join SHP</td>
<td>235</td>
<td>203</td>
</tr>
<tr>
<td>Number of members</td>
<td>207</td>
<td>203</td>
</tr>
</tbody>
</table>

### 3.6  SLJ1 – Hotels

SLJ1 operated a group personal pension (GPP), which was set up in April 1997. The enrolment technique was changed to Streamlined Joining in September 2004. Prior to the switch, participation rates were low, and rose only fractionally following the adoption of Streamlined Joining. Table 3.5 provides a detailed description of the scheme characteristics before and after the adoption of Streamlined Joining.

Issues relevant to SLJ1:

- this employer wanted to reduce the costs and administrative burden of managing pension enrolment. The switch coincided with the provider’s drive to increase administrative efficiency by migrating to an online process of transmitting data to the provider;

- since the employer feared that rising take-up would increase contribution costs excessively, only new employees were informed of the simpler joining process during induction. Existing non-members were able to join through Streamlined Joining, but no effort was made to chase new employees who had not joined when first eligible to do so;

- membership was limited by the fact that 75 per cent of employees were foreign nationals, who typically only stayed for a year or two before returning home. According to the employer, a large proportion of staff had no interest in building up pension savings in the UK;

- the switch to Streamlined Joining had only a very small impact on the participation rate. In all, eight employees had joined and four more were scheduled to join in the first quarter of 2005, when the research was conducted. This was more than would have joined during the same period under traditional opt-in, the employer said.
Table 3.5  SLJ1: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch August 2004</th>
<th>Post-switch January 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme type</td>
<td>GPP</td>
<td>GPP</td>
</tr>
<tr>
<td>Enrolment technique</td>
<td>Traditional opt-in</td>
<td>Streamlined Joining</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>Minimum 1%</td>
<td>Minimum 1%</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>Matched up to 3% for staff and 5% for executives</td>
<td>Matched up to 3% for staff and 5% for executives</td>
</tr>
<tr>
<td>Eligibility period</td>
<td>3 months’ employment and 6 months’ residence in the UK</td>
<td>3 months’ employment and 6 months’ residence in the UK</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Approximately 420</td>
<td>Approximately 420</td>
</tr>
<tr>
<td>Number of employees eligible to join GPP</td>
<td>Approximately 420</td>
<td>Approximately 420</td>
</tr>
<tr>
<td>Number of members</td>
<td>22</td>
<td>26†</td>
</tr>
</tbody>
</table>

† This represents an increase of six members, since two member employees had left.

3.7  SLJ2 – Legal services

To give employees greater choice, SLJ2 offered two open schemes, operated by different providers: a GPP and an SHP. It was up to the employee to decide which scheme to join. The GPP was set up in 1996. The adoption of Streamlined Joining for the GPP took place in February 2004 and did not affect the SHP, which already used a simplified application process. This employer also operated a closed DB scheme that had approximately 300 members. Table 3.6 shows that membership levels rose only very slightly following the change.

Issues relevant to SLJ2:

- the employer considered it to be part of its role as a ‘good employer’ to offer a sound pension scheme, which might also provide a competitive edge in attracting and retaining staff. According to the employer, however, it should be the employee’s choice to save;

- the employer’s motives for changing the joining technique were twofold: to reduce the administrative costs and burden generated by traditional opt-in and, secondly, to make it easier for employees to join;

- Streamlined Joining only applied to newly-eligible employees, and there was no increase in the flow of written or in-person communications;

- Table 3.6 shows that there was a slight increase in the participation rate after the switch, but neither the employer nor the provider was clear as to whether this was due to the adoption of Streamlined Joining.
Table 3.6  SLJ2: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch January 2004</th>
<th>Post-switch March 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme type</td>
<td>GPP</td>
<td>GPP</td>
</tr>
<tr>
<td>Enrolment technique</td>
<td>Traditional opt-in</td>
<td>Streamlined Joining</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>3% for support staff under 25, and 5% for support staff over 25 and lawyers</td>
<td>3% for support staff under 25, and 5% for support staff over 25 and lawyers</td>
</tr>
<tr>
<td>Eligibility period</td>
<td>Support staff: 2 years</td>
<td>Support staff: 2 years</td>
</tr>
<tr>
<td></td>
<td>Lawyers: 2 months post-qualification</td>
<td>Lawyers: 2 months post-qualification</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Approximately 900</td>
<td>Approximately 900</td>
</tr>
<tr>
<td>Number of employees eligible to join GPP/SHP</td>
<td>Approximately 600</td>
<td>Approximately 600</td>
</tr>
<tr>
<td>Number of GPP members</td>
<td>126</td>
<td>143</td>
</tr>
<tr>
<td>Number of SHP members</td>
<td>34</td>
<td>32</td>
</tr>
</tbody>
</table>

3.8 SLJ3 – Real estate

The DC scheme offered by SLJ3 was set up in January 1989 and used traditional opt-in until the switch to Streamlined Joining in April 2004. Table 3.7 provides a description of the scheme characteristics before and after the switch. The absolute number of members increased because of a large increase in the number of eligible employees, but the overall participation rate did actually drop slightly.

Issues relevant to SLJ3:

- the employer’s aim in introducing Streamlined Joining was not to increase participation rates, but to ease the administrative burden felt by the employer in managing the enrolment process;

- although Streamlined Joining applied to all eligible employees, both new and existing, it was not thought necessary to advertise it within the company, and there was no increase in written or in-person communications.

As noted, the absolute number of members increased after Streamlined Joining was introduced because the number of eligible employees increased, but the participation rate fell. The employer was unable to explain why this had happened, beyond an impression that new employees were less interested in pension saving than existing employees.
3.9 SLJ4 – Utility

SLJ4 was a large conglomerate, and despite efforts to move all employees to the same scheme, the company still operated a number of pensions, including a closed DB scheme and two GPP schemes. This case study covered just one of these GPP schemes, that was set up in June 1995, with the switch to Streamlined Joining taking place in April 2004. Table 3.8 shows that the participation rate increased somewhat following the change.

Issues relevant to SLJ4:

- the employer contribution ranged between three and 12 per cent of members’ salaries. This variation was the result of assimilating employees of acquired companies whose benefits were protected by the employment regulations. The most common contribution rate for newly-eligible members was four per cent, matched by the employer;

- although the employer thought that one of the responsibilities of a ‘quality’ employer was to offer pension benefits, it was keen to emphasise that it was up to employees to decide whether to join;

- the previous enrolment technique was recognised as cumbersome and off-putting for employees and was thought to be a barrier to membership. The employer’s primary aim in adopting Streamlined Joining, however, was to reduce the administrative burdens and costs of managing the scheme, and it was part of a wider-ranging drive to simplify the entire process;

- existing non-members were not made aware of the new joining technique and no systematic changes were made in communications. The IFA was beginning to take a more active role in overseeing the scheme and, according to the employer and provider, this was set to increase further. There had already been a slight increase in the number of ad hoc presentations to employees;
Table 3.8 shows that the participation rate did increase, resulting in an extra 265 members. This would suggest that the change to Streamlined Joining had a positive effect on increasing take-up, although both the employer and provider were themselves reluctant to attribute the rise to the new enrolment technique directly. Both thought that the increased use of presentations had been more important than the switch to Streamlined Joining.

### Table 3.8  SLJ4: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch January 2004</th>
<th>Post-switch January 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme type</td>
<td>GPP</td>
<td>GPP</td>
</tr>
<tr>
<td>Enrolment technique</td>
<td>Traditional opt-in</td>
<td>Streamlined Joining</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>Minimum 3%</td>
<td>Minimum 3%</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>Matching up to between 4% and 12% depending on position in company</td>
<td>Matching up to between 4% and 12% depending on position in company</td>
</tr>
<tr>
<td>Eligibility period</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Number of employees</td>
<td>30,000-35,000</td>
<td>30,000-32,000</td>
</tr>
<tr>
<td>Number of employees eligible to join either GPP</td>
<td>Approximately 5,000</td>
<td>Approximately 5,000</td>
</tr>
<tr>
<td>Number of members of GPP case studied</td>
<td>210</td>
<td>475</td>
</tr>
</tbody>
</table>

3.10  SLJ5 – Clothing retailer

The GPP offered by SLJ5 was set up prior to 2000, and used traditional opt-in until the change to Streamlined Joining in August 2004. This employer was highly unusual in our cases in that it adopted Streamlined Joining primarily to increase participation rates. Table 3.9 provides a detailed description of the scheme characteristics before and after the adoption of Streamlined Joining.

**Issues relevant to SLJ5:**

- after one year’s service, employees were entitled to a three per cent employer contribution, with no required employee contribution. If employees chose to contribute more than three per cent, the employer matched this contribution up to six per cent. If employees chose to make a contribution before the one year eligibility period, the employer would match contributions only up to three per cent of salary;

- the employer believed that it offered generous pension benefits, and explained that efforts had been made under traditional opt-in to raise awareness of the pension offering within the company. In particular, the employer had asked the provider to give a few presentations, and it was through this process that the
employer became aware of the possibility of simplifying the enrolment technique. The employer pointed out, however, that it should be up to employees to decide whether or not to join. Concerns were also expressed about the potential costs involved in increasing membership;

- the employer organised a one-off campaign of presentations running alongside the switch to Streamlined Joining aimed at new and existing eligible employees. One-to-one meetings were also offered by the provider following these presentations. Although the employer had not repeated this campaign after Streamlined Joining was first introduced, the combined presentations and one-to-ones had directly increased participation rates, the employer said. In the employer’s opinion, ending the campaign caused subsequent joining to ‘trail off’, and a plan was in place to repeat the exercise in the near future;

- the participation rates did increase slightly following the change to Streamlined Joining, although the provider and the employer credited this just as much to the use of presentations as the switch to Streamlined Joining.

### Table 3.9 SLJ5: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch</th>
<th>Post-switch</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scheme type</strong></td>
<td>GPP</td>
<td>GPP</td>
</tr>
<tr>
<td><strong>Enrolment technique</strong></td>
<td>Traditional opt-in</td>
<td>Streamlined Joining</td>
</tr>
<tr>
<td><strong>Employee contribution</strong></td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td><strong>Employer contribution</strong></td>
<td>3% minimum, but also matches employee up to 6%</td>
<td>3% minimum, but also matches employee up to 6%</td>
</tr>
<tr>
<td><strong>Eligibility period</strong></td>
<td>1 year to receive the benefits stated above, but also matches employee up to 3% in first year</td>
<td>1 year to receive the benefits stated above, but also matches employee up to 3% in first year</td>
</tr>
<tr>
<td><strong>Number of employees</strong></td>
<td>Over 500</td>
<td>Over 500</td>
</tr>
<tr>
<td><strong>Number of employees eligible to join</strong></td>
<td>Approximately 500</td>
<td>Approximately 500</td>
</tr>
<tr>
<td><strong>Number of members</strong></td>
<td>72</td>
<td>88 †</td>
</tr>
</tbody>
</table>

† This represents an increase in 24 members, since 8 previous members left the organisation.
3.11 AD1 – Transport

AD1 offered an SHP that was set up in August 2003. The switch to Active Decisions was made at the end of September 2004, after which participation rates rose sharply.

Issues relevant to AD1:

- the company originated in continental Europe, where employer contributions are compulsory. Pension provision was part of the company’s culture and was considered to be a mark of a ‘quality employer’. This employer was, however, aware of the cost in employer contributions of full membership prior to implementing Active Decisions, and believed that most of this increase would be covered by a reduction in administrative costs. The company had just under 60 employees, so predicting the impact of Active Decisions on contribution costs was not difficult;

- a new and important feature of the switch to Active Decisions was the introduction of IFA-led one-to-one advisory meetings, which were organised for all site-based employees. The employer said that most employees decided to join immediately after the one-to-ones, but some effort was made to chase those who did not make their decision immediately or did not attend. The employer explained that since there was no required employee contribution, there was little reason for employees to decide against joining the scheme;

- the importance of the one-to-ones in increasing membership was demonstrated, the employer and IFA believed, by differences in participation rates between the company’s office-based employees and its lorry drivers, who were not able to attend these meetings. Instead, lorry drivers were sent a letter and received a telephone call from the IFA. Fewer eligible lorry drivers than site-based staff joined the scheme under Active Decisions, although the employer did find some success with the drivers through continued chasing;

- Table 3.10 shows that participation rates rose sharply following the introduction of Active Decisions. It should be noted that of the 48 members after the switch, 14 were lorry drivers who enrolled without a one-to-one meeting with the IFA.
Table 3.10  AD1: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch</th>
<th>Post-switch</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>October 2004</td>
<td>April 2005</td>
</tr>
<tr>
<td>Scheme type</td>
<td>SHP</td>
<td>SHP</td>
</tr>
<tr>
<td>Enrolment technique</td>
<td>Traditional opt-in</td>
<td>Active Decisions</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Eligibility period</td>
<td>3 months</td>
<td>3 months</td>
</tr>
<tr>
<td>Number of employees</td>
<td>53</td>
<td>65</td>
</tr>
<tr>
<td>Number of employees eligible to join</td>
<td>53</td>
<td>65</td>
</tr>
<tr>
<td>Number of members</td>
<td>17</td>
<td>48</td>
</tr>
</tbody>
</table>

3.12  AD2 – Construction

The SHP offered by AD2 was set up in August 2003. The change to Active Decisions took place in September 2004. Table 3.11 shows that although employees who became members were required to make a contribution, participation rates rose somewhat following the switch.

Issues relevant to AD2:

- the employer considered pension provision to be part of the role of a ‘responsible employer’, but also believed that employees must take responsibility for themselves. Hence, the employer believed that employees should contribute to their own pensions to access employer contributions, which matched those of employees up to 15 per cent, depending on seniority;

- the employer’s commitment was also driven by a statutory requirement to ensure that staff employed as a result of acquisitions retained broadly comparable pension rights;

- the switch to Active Decisions was motivated by the employer’s desire to facilitate the joining process for employees, and thus increase participation rates, while maintaining their ability to make decisions autonomously;

- in addition to wishing to facilitate enrolment for motivated employees, the employer found traditional opt-in to be an administrative burden. Employees had difficulty filling in the forms and were confused about the process. The employer recognised that the support provided under the old system – occasional pension clinics and meetings with the provider – was failing to help employees. Instead of providing more support for traditional joining, the employer decided to adopt a new technique that would, it was hoped, reduce employees’ confusion and lessen their need for help in joining;
the provider had also suggested Automatic Enrolment as a potential solution, but this was dismissed by the employer on the grounds that it was not the employer’s responsibility to ‘force’ employees to save, and it could result in an unacceptable rise in the employer’s contribution costs;

this employer thought that contribution costs were unlikely to soar under Active Decisions because only very motivated employees would make the effort to fill in even a simplified form and agree to make a contribution themselves. Also, although all employees could join using the simplified forms, these were not issued to existing non-members unless they requested them;

the new application form under Active Decisions was worded to imply that employees had to return it, indicating whether or not they wished to join. The employer did not chase employees who failed to fill in the form, however;

the adoption of Active Decisions coincided with a reduction in employer-led pension clinics, which had occurred only when a large number of employees joined at the same time, usually after an acquisition. All employees, both members and non-members, were reminded about the possibility of joining the scheme through a pensions newsletter that came out three times a year.

Table 3.11 AD2: scheme characteristics before and after the switch in enrolment technique

<table>
<thead>
<tr>
<th></th>
<th>Pre-switch August 2004</th>
<th>Post-switch December 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme type</td>
<td>SHP</td>
<td>SHP</td>
</tr>
<tr>
<td>Enrolment technique</td>
<td>Traditional opt-in</td>
<td>Active Decisions</td>
</tr>
<tr>
<td>Employee contribution</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Employer contribution</td>
<td>Matching 3%, 6%, 9% or 15%, depending on level of seniority</td>
<td>Matching 3%, 6%, 9% or 15%, depending on level of seniority</td>
</tr>
<tr>
<td>Eligibility period</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Approximately 9,000</td>
<td>Approximately 9,000</td>
</tr>
<tr>
<td>Number of employees eligible to join</td>
<td>Approximately 4,500</td>
<td>Approximately 4,500</td>
</tr>
<tr>
<td>Number of members</td>
<td>1,191</td>
<td>1,468</td>
</tr>
</tbody>
</table>
3.13 Summary comments

Change to a new enrolment technique was usually associated with an increase in the absolute number of members of the pension scheme. It is important to note that since schemes had only recently changed their joining technique, data collected over a longer timescale would be needed to assess fully the impact of each technique. With this caution in mind, the case studies showed that for the schemes studied soon after making a switch, Streamlined Joining did not achieve the same levels of impact as Automatic Enrolment and Active Decisions.

A wide range of scheme-specific factors, over and above the enrolment technique, emerged as important influences on the success of a technique in increasing participation rates. The employer’s motivation to change the enrolment technique proved to be an important underlying driver. Those employers whose primary reason for adopting a new technique was to drive up membership were more likely to put in place other measures that encouraged greater take-up.
Chapter 3 summarised the impact that changes in enrolment techniques had on participation rates in the 11 private sector case studies. Scheme-specific factors were identified that appeared to play a role in mediating the impact that the new techniques had. Among other things, the motives for adopting a new technique varied from employer to employer, and influenced both the choice of technique and how it was implemented.

This chapter examines in greater depth the motives behind the adoption of the new enrolment techniques, and compares employers who implemented Automatic Enrolment, Streamlined Joining and Active Decisions.

The motivations that led employers to change enrolment technique drew on their underlying attitudes towards:

- the importance of work-based pension provision;
- the balance of responsibility between employers and employees in making choices that affect employees’ wellbeing in retirement;
- the cost of the pension scheme to the employer.

4.1 Motives for adopting Automatic Enrolment

4.1.1 Attitudes to pension provision among employers adopting Automatic Enrolment

Commonly, employers adopting Automatic Enrolment thought it was their responsibility to offer a ‘sound’ pension scheme. They also believed that offering pension benefits aided recruitment and retention, was good for employee morale, and contributed to positive employer-employee relations. In switching to Automatic Enrolment, these employers adopted a joining technique that they thought was compatible with their values.
As a group and compared to those adopting Streamlined Joining and Active Decisions, these employers:

- generally offered more generous employer contributions;
- tended not to have a required employee contribution;
- rarely imposed a waiting period before new employees became eligible to join the pension scheme.

In general, they also appeared to have accepted responsibility for meeting employer contribution costs commensurate with high participation rates.

### 4.1.2 Main drivers behind the decision to adopt Automatic Enrolment

Increasing participation rates, which was in line with the employers’ principles, was generally the primary aim of employers that adopted Automatic Enrolment.

Reducing the administrative costs and burdens of traditional opt-in was seen as a secondary benefit. These employers thought that the traditional opt-in imposed excessive administrative burdens on them and on employees. They had been spending too much time resolving errors and omissions that resulted from the difficulties employees experienced when they tried to complete traditional application forms. Some employers found that the traditional process was so convoluted that they had to pay contributions in arrears, which affected cash flow.

‘There were all sorts of problems, with employees ringing me up, saying that they had applied to join the scheme, but that they had not been joined. It was a bit of a mish-mash. We wanted maximum enrolment with minimum fuss.’

(Automatic Enrolment employer)

Traditional application forms were identified as a deterrent to employees’ joining. Automatic Enrolment was seen as a way of simplifying the joining process by requiring less initiative and less information from the employee.

‘The application form was basically 12 pages of crap. It was created during the time of blame culture and mis-selling, and the Government was trying to protect the punter by making the provider give all this information; but in fact they were doing him a disservice.’

(Automatic Enrolment employer)

### 4.2 Motives for adopting Streamlined Joining

#### 4.2.1 Attitudes to pension provision among employers adopting Streamlined Joining

Employers adopting Streamlined Joining also believed that pensions were an important benefit, but they did not think it was their responsibility to push or
persuade employees to join a scheme. They thought it should be up to individuals to make such decisions for themselves. In some schemes that adopted Streamlined Joining, the employer was reluctant both before and after the change to publicise attractive features of the pension scheme, such as employer contributions that matched employee contributions up to a level of five per cent of salary, because they did not want to bear the cost of increased membership.

‘We are not looking to mother our staff; we expect them to take the responsibility. We will offer arrangements, but it’s down to them to take the initiative.’

(Streamlined Joining employer)

4.2.2 Main drivers behind the decision to adopt Streamlined Joining

For those who adopted Streamlined Joining, the primary reason for changing technique was the wish to reduce administrative costs and inconveniences. Occasionally these employers said that they would like more people to join, but they typically expressed greater concern about the cost implications of increasing participation rates.

These employers thought that under traditional opt-in they were spending too much time on errors and omissions, and dealing with employees’ queries about how to complete the application form or which investment fund to select. Employees’ questions often had to be passed to the provider or the Independent Financial Adviser (IFA) because the employer could not give advice. This resulted in a relay process, with the employer as middleman. Additionally, employers frequently wished to cut the paperwork that flowed between themselves and the provider. Finally, some employers wanted to achieve greater transparency in the whole enrolment process and access information about scheme members more easily: a by-product of the adoption of Streamlined Joining was often that employers would no longer need to contact the IFA or provider for membership details or to monitor the application process, because they could do this themselves online.

Although rare across all case studies, employers adopting Streamlined Joining did occasionally try to estimate administrative cost savings and employer contribution increases in order to reassure themselves that Streamlined Joining would not have too great a financial impact on the company.

It was unusual, but not unknown, for employers adopting Streamlined Joining to be equally committed to making it easier for employees to join and to reducing administrative costs.

‘We were hoping to achieve two things. On the employee side: the simplicity of an employee being able to complete the application forms more easily and not have so many questions. From an administrative point of view: to avoid ad hoc questions coming from providers in terms of the data that they needed.’

(Streamlined Joining employer)
4.3 Motives for adopting Active Decisions

4.3.1 Attitudes to pension provision among employers adopting Active Decisions

Only two employers adopting Active Decisions were available for study. Their attitudes towards the importance of pension provision differed slightly, although both thought that it was a way of optimising goodwill.

One employer explained that pension provision had high priority because the company believed employees expected good pensions and because it wanted to ensure they gave comparable pension benefits to staff in other companies in that industry. The pension scheme was also a way of demonstrating their status as a ‘quality’ employer, by getting the workforce to ‘buy into’ actually owning a pension, and this was thought to help in winning contracts. Nevertheless, this employer still believed that employees should take an active interest in their own pension provision, and, accordingly, they were only prepared to make pension contributions on a matching basis.

The motives of the second employer that adopted Active Decisions were more employee-focused: offering a pension was primarily a way of demonstrating commitment to staff, which might have a positive impact on recruitment and retention. This employer wanted to increase the importance employees placed on pension provision. In line with this attitude, the employer expected employees to be aware of their options and make their own decisions. This employer only offered a contribution if matched by the employee.

The employers who adopted Active Decisions thought every employee should join the pension scheme, and they were prepared to take on the costs of full membership, although doubts were expressed as to whether all employees would be sufficiently motivated to join.

4.3.2 Main drivers behind the decision to adopt Active Decisions

Increasing membership as well as employee involvement, in line with company principles, was the primary objective for adopting Active Decisions. Reducing administrative costs and burdens was a secondary reason to find an alternative to traditional opt-in.

Employers adopting Active Decisions saw it as a way to simplify the enrolment process without overriding the need for employees to get involved and take responsibility for their own retirement planning. Where Automatic Enrolment and Active Decisions had both been considered as alternatives to traditional opt-in, Automatic Enrolment had been rejected in favour of Active Decisions on the grounds that it did not encourage employees to take enough responsibility themselves.
4.4 Summary comments

Since employers have discretion about which enrolment technique their pension schemes use, employers’ motivations and objectives influenced the decisions they made about which techniques to adopt and how to implement a new joining technique. The case studies showed that there were two main reasons for employers to abandon traditional opt-in and adopt a new one: to increase membership and to reduce administrative costs and burdens.

The case studies showed that the priority placed on these two reasons differed for employers adopting Automatic Enrolment, Streamlined Joining and Active Decisions. Employers adopting Automatic Enrolment and Active Decisions primarily wished to increase membership, but those adopting Active Decisions were also distinctly concerned that employees should be involved in making their own plans and decisions for retirement. Employers adopting Streamlined Joining were concerned primarily with reducing their own administrative costs and burdens.
5 Providers’ and Independent Financial Advisers’ reactions to the enrolment techniques

This chapter examines the role played in the adoption of the enrolment techniques by providers to the 11 private sector schemes studied, and, in four cases, the role of their Independent Financial Advisers (IFAs). The chapter also focuses on the providers’ and IFAs’ own reactions to the techniques.

5.1 Who initiated change: employers or intermediaries?

The initiator of the changes in enrolment technique in the private sector schemes that were studied differed according to enrolment technique. The differences related to the problems posed for the employer and the provider by the traditional technique that had previously been used, as described in detail in Chapter 4.

In summary.

• For employers adopting Automatic Enrolment and Active Decisions, the employer usually, but not always, identified the problem – lower than hoped for participation in the pension scheme – and the provider or IFA recommended the new joining technique as a solution.

14 The four IFAs interviewed were advisers to Automatic Enrolment (two), Streamlined Joining (one) and Active Decisions (one) schemes. See Section A.3.6 of Appendix A for detail.
In the case of Streamlined Joining, employers and intermediaries were both affected by the administrative problems associated with traditional opt-in and both stood to benefit from a change that would cut administrative costs. Hence, it was harder for employers and providers to say who had instigated the change, and there were instances of employers’ and of intermediaries’ being seen as leading the change.

5.2 Providers and IFAs were more central to the change process than other advisors

The case studied employers who decided to adopt Automatic Enrolment and Active Decisions generally made their decisions without seeking external information or advice from sources other than their providers or IFAs, although in-house experts such as actuaries or lawyers were occasionally consulted, where available. Exceptionally, a scheme’s actuaries were consulted before the decision to adopt Automatic Enrolment was taken.

Employers adopting Streamlined Joining also tended not to seek information and advice from external experts apart from their providers and IFAs, but if in-house experts such as staff lawyers were available, they might be consulted. Where consulting actuaries were, exceptionally, consulted, their involvement in the change process was extensive, including drafting new explanatory literature for the scheme, assisting in the selection of a new provider, and generally reassuring the employer as decisions were taken.

‘…[The consulting actuaries] helped on the design of the brochures and the application form and made a couple of tweaks to our internal process to meet their requirements. But really what the employer was doing was talking to them to get their support and encouragement that they were doing the right thing.’

(Streamlined Joining provider)

There was little evidence that enrolment techniques other than the one adopted had been considered as the employers who were studied made their decisions about changing enrolment technique. Apart from the schemes’ providers and IFAs, advocates and advisers with expertise to offer on alternative techniques, were not, apparently, involved.

The parties involved in the final decision to switch enrolment technique varied from company to company. For some employers, commonly larger firms switching to Automatic Enrolment, the decision needed to be taken at board level, because the new enrolment technique was expected to result in a substantial increase in employer contribution costs. For other employers adopting Automatic Enrolment, the switch was seen as an administrative change that would bring some cost savings. In these cases the decision to adopt was taken at middle management level with the knowledge and support of an appropriate board member.
The final decisions in companies adopting Streamlined Joining were taken at middle management level with the knowledge of an appropriate board member.

Employers adopting Active Decisions made their decisions at departmental level, but board ratification was required as a formality only.

5.3 IFAs’ involvement during and after adoption of new techniques

The level of IFA involvement during and after the change tended to be determined by the specific needs of the employer rather than the type of enrolment technique adopted. The IFA’s involvement could increase, decrease or stay the same after the change in enrolment technique, depending on the company’s situation and the history of the IFA’s relationship with the employer.

In some cases the IFAs’ role changed when the enrolment technique changed, but there are also examples of cases where the IFA’s role remained unchanged:

- The role of an IFA who had suggested Automatic Enrolment and worked with the employer to produce a new introductory letter was cut back as soon as Automatic Enrolment had been implemented, because the employer believed face-to-face communications were of less importance.

- Another IFA working with an Automatic Enrolment scheme saw little change in his active role after the switch. Before the change, the IFA was heavily involved in setting up Automatic Enrolment and worked alongside the employer to implement it. After Automatic Enrolment was up and running, the IFA continued to support and provide advice to the employer. This had always been the IFA’s main role, as distinct from personally providing information and advice to employees.

- An employer that adopted Streamlined Joining appointed an IFA for the first time after the change had been implemented. The IFA had not been involved in the changeover, which was overseen by consulting actuaries. Under Streamlined Joining, the IFA’s role was to promote the pension scheme to employees through printed and in-person communications.

The case studies revealed that presentations and one-to-one advisory meetings by providers and with IFAs were viewed favourably by employees, as discussed in Section 6.5 and 6.6. Variations among schemes in their use, however, appeared to relate more to the employers’ needs than they did to employees’ needs and preferences.
5.4 IFAs’ influence on the change process

From the evidence of the case studies it appeared that providers were more likely than IFAs to have been the bringers of solutions to employers wanting to change the enrolment technique they used.

As their guiding concept, IFAs working with case studied schemes believed in the need for, and merits of, providing information and advice that was tailored to individuals’ own circumstances and expectations. IFAs’ views on this matter were supported by employees saying that this is what they wanted and needed. Some IFAs also thought that it would take personally relevant information and advice to convince current pension scheme members to contribute more.

Where schemes used IFAs, they were generally used to provide information and advice to employees, and only exceptionally was their main role to advise and support the employer. Whether through IFAs’ influence or their ability to identify employers with compatible beliefs, the IFAs who were studied played roles consistent with their guiding concept.

5.5 IFAs’ opinions of the enrolment techniques

In general, IFAs were critical of the complexity and difficulty of traditional enrolment procedures, especially long and overly demanding application forms, and felt that the three techniques in the study represented an improvement overall.

5.5.1 IFAs’ experience of and attitudes to Automatic Enrolment

IFAs considered Automatic Enrolment to be an atypical approach to enrolment, particularly where there was a required employee contribution. One IFA pointed out that of over 600 schemes on his books, only one operated Automatic Enrolment, and no other scheme had even considered the technique where there was a required employee contribution.

IFAs generally agreed that the employers who had adopted Automatic Enrolment would tend to be paternalistic in taking responsibility for employees’ financial security in retirement. The main reason for not using Automatic Enrolment, however, was seen by IFAs to be its financial consequences.

‘A lot of employers say they would like to increase take-up, but a lot I have talked to about Automatic Enrolment have said it is just too expensive. The bigger the employers, the bigger the concern. An employer with 20 people can probably budget for it, but with 2,000 or 3,000 employees, where budgets are done three years in advance, it is just not an option to increase take-up so dramatically, so quickly.’

(Automatic Enrolment IFA)
IFAs emphasised the importance of continuing communications under Automatic Enrolment. Although employees had been enrolled automatically, IFAs thought they still needed information and advice to make informed choices about their pension. Information and advice were also thought to play a critical role in lifting employee contribution levels. Section 6.5.2 examines in detail how and why the amount and frequency of in-person communications changed as a result of the introduction of Automatic Enrolment.

### 5.5.2 IFAs’ experience of and attitudes to Streamlined Joining

Experience with organisations using Streamlined Joining was widespread among the IFAs, and their attitudes to this joining technique were generally positive. IFAs said that Streamlined Joining succeeded in:

- simplifying administration, particularly applications;
- controlling administrative costs;
- reducing administrative burdens for employees and employers.

IFAs working with schemes that had adopted Streamlined Joining highlighted the benefits of moving away from a bureaucratic approach to a less demanding and intimidating enrolment technique, which they felt was conducive to increasing membership. It should be noted, however, that the limited administrative data provided by case studied Streamlined Joining schemes failed to demonstrate an association between adopting Streamlined Joining and increasing membership.

Despite the simplicity of Streamlined Joining compared to traditional opt-in, the introduction of Streamlined Joining had not eliminated the need for education and advice, IFAs felt.

### 5.5.3 IFAs’ experience of and attitudes to Active Decisions

Among IFAs working with case studied schemes, one was adviser to a scheme operating Active Decisions. This IFA thought that the potential costs stemming from increased employer contributions tended to limit employers’ interest in Active Decisions, although in the cases studied this was not apparent.

### 5.6 Providers’ reactions to the techniques

In their typical role of bringing solutions to employers wanting to change, providers were active and influential participants in the process, as shown in Chapter 4.

By and large, the providers who were studied wanted to:

- help the employers who were their clients meet their objectives for their company’s pension scheme;
- see take-up rise in the schemes they ran;
- reduce bureaucratic burdens for everyone – themselves, employers and employees.
Having described the role providers played in bringing about change in Chapter 4, attention can be given to their reactions to these experiences.

5.6.1 Providers’ reactions to Automatic Enrolment

As noted in Section 5.5.1, there was evidence in the case studies of providers to Automatic Enrolment schemes being sensitive to compliance issues affecting the operation of this joining technique. Providers to Automatic Enrolment schemes also noted that using Automatic Enrolment with a required employee contribution was currently unusual. With this in mind, one provider called for employers to be authorised to write employment contracts that allow employees to authorise, where appropriate, money to be deducted from employees’ pay as employee pension contributions.

Other providers to Automatic Enrolment schemes summed up their experiences by saying that greater clarity was required about what was required to operate Automatic Enrolment within the bounds of current guidelines and regulations15.

‘The desire to protect consumers has had unintended consequences, together with European legislation on the DMD. It could affect schemes if employees have to be seen face-to-face.’

(Automatic Enrolment provider)

Although Automatic Enrolment was generally praised by providers serving the schemes that were studied, it was also occasionally said that Automatic Enrolment alone would not solve the problem of insufficient saving for retirement.

5.6.2 Providers’ reactions to Streamlined Joining

Providers emphasised the advantages of simplifying the joining process under Streamlined Joining. Among examples given was the reduction from 20 days to two days following submission of an application before members received their policy documents.

There was also a sense in providers’ assessments of Streamlined Joining that it was becoming easier for schemes wanting to modernise the enrolment process to adopt this technique.

‘As time goes on, the technology gets better and better, and if we can make it easier for people to join the scheme and for employers to administer their schemes, then it’s something we felt would be good for them.’

(Streamlined Joining provider)

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15 This issue is discussed in ‘Automatic Enrolment in workplace pension schemes: Guidance on the regulatory framework’ which can be found on the internet at www.pensionsatwork.gov.uk or hard copies are available from 0845 7 31 32 33 - ISBN: 1-84388-592-1.
In keeping with IFAs’ emphasis on the importance of personally relevant information and advice, some providers working with Streamlined Joining schemes that had succeeded in increasing participation somewhat said that simplifying the joining process would have been less successful had it not been supported by an active communications programme delivered by IFAs.

‘The success of the introduction of Streamlined Joining was due to a combination of presentations with a simplified joining method. I don’t think you could have done one without the other.’

(Streamlined Joining provider)

5.6.3 Providers’ reactions to Active Decisions

It is not really possible to generalise from the two case studies of Active Decisions schemes, but the sense among providers was that although Active Decisions was beginning to show what could be achieved by investing in change – simplifying joining and seeking to engage employees more in planning for retirement – there was more to be done, mainly by way of face-to-face communication.

‘It has been successful, but I think there is further to go. Our challenge is to push participation and contributions up even further. We need to get as many non-joiners in the scheme as possible. Then, if there are a group of people at a presentation, and you look at the contribution rates when their forms come back in, the average member contributions are always significantly higher compared to those who don’t attend the seminar.’

(Active Decisions provider)

5.7 Summary comments

In general, employers led the change process by identifying a need to change, based on problems they experienced with traditional opt-in. Providers, and occasionally IFAs, brought the solutions to these problems to employers.

The level of IFAs’ involvement after adoption of a new joining technique depended more on the needs of the employer and the history, if any, of the IFA-employer relationship, than it did on the technique adopted. Examples were found among the case studies of IFA roles increasing, decreasing, and remaining unchanged after enrolment techniques changed.

Providers wanted to help the employers they worked with achieve their objectives for their pension schemes, increase membership, and reduce enrolment bureaucracy. They had positive things to say about the impact of Automatic Enrolment, Streamlined Joining and Active Decisions in the studied schemes with which they had worked. Like IFAs, they had concerns about safe implementation of Automatic Enrolment, and they emphasised the importance of face-to-face communications, given employees’ needs for personally relevant information and advice.
6 Switching joining technique: the implementation process

This chapter looks at how Automatic Enrolment, Streamlined Joining and Active Decisions were implemented by employers. The process of change and the level of effort employers invested in implementing the new techniques are examined, including problems they experienced. This chapter also explores the role and impact of the printed and in-person communications used in the enrolment process and employees’ experience of enrolment communications.

Attention is given here to the impact of the Distance Marketing Directive (DMD). Although the DMD came into force after the employers who were studied had decided to change enrolment technique, it did affect the way some employers operated the new techniques.

6.1 Stages of the enrolment process – before and after

Chapter 4 showed that employers had different attitudes towards pension provision and, consequently, different motives for changing enrolment technique. Those adopting Automatic Enrolment and Active Decisions wished primarily to increase participation rates, while Streamlined Joining adopters were more commonly concerned with reducing administrative burdens and costs. These differences in attitude were evident in the enrolment process under traditional opt-in:

- those eventually adopting Automatic Enrolment and Active Decisions tended to give out application forms and pension packs to all employees at induction and commonly made efforts to chase up employees if the form was not returned;

- those adopting Streamlined Joining were less proactive, informing newly-eligible employees about the pension but leaving it to them to request an application form. They rarely chased non-members.
Figure 6.1 summarises the steps employees went through under traditional opt-in, depending on the technique eventually adopted, and Figure 6.2 describes the process after the change. These processes were evident in the case studies and were not necessarily followed by other employers.

Schemes adopting Automatic Enrolment experienced most change, considerably reducing the stages in the joining process for employees. Although the number of steps remained the same under Active Decisions, a simpler application form was used, spelling out the consequences of opting out, and requiring the employee to make a decision as to whether or not to join the scheme. Little apart from the application form changed with Streamlined Joining, and the number of steps generally remained the same.

**Figure 6.1** Case study employees’ experience of enrolment under traditional opt-in

<table>
<thead>
<tr>
<th>Employees Adopting Automatic Enrolment and Active Decisions</th>
<th>Employers Adopting Streamlined Joining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees given “Pension Pack”, usually upon induction/eligibility, containing lengthy application form among other information</td>
<td>Employees most commonly told about pension during induction but had to request application form/pension pack</td>
</tr>
<tr>
<td>Employees filled in form and returned to employer/provider. Typically had to make decisions about:</td>
<td>Employees filled in form and returned to employer/provider. Typically had to make decisions about:</td>
</tr>
<tr>
<td>Contribution levels</td>
<td>Contribution levels</td>
</tr>
<tr>
<td>Investment funds</td>
<td>Investment funds</td>
</tr>
<tr>
<td>If employees did nothing:</td>
<td>If employees did nothing:</td>
</tr>
<tr>
<td>- Employers often sent 1-2 reminder letters</td>
<td>- Rarely, employers actively chased employees</td>
</tr>
<tr>
<td>Exceptionally, employees automatically given pay rise in lieu of employer contribution</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 6.2** Case study employees’ experience of enrolment, after the switch

<table>
<thead>
<tr>
<th>Automatic Enrolment</th>
<th>Active Decisions</th>
<th>Streamlined Joining</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees given “Pension Pack” or employment contract explaining Automatic Enrolment</td>
<td>Employees given “Pension Pack”</td>
<td>Some still needed to request “Pensions Pack”</td>
</tr>
<tr>
<td>- Signing contract may constitute acceptance of automatic employee contribution</td>
<td></td>
<td>- In the exceptional event that the employer wanted primarily to increase membership, application forms handed out during presentations instead</td>
</tr>
<tr>
<td>- Employees sometimes given opportunity to make their own contributions right away before becoming eligible for employer contribution</td>
<td></td>
<td>- Application form simplified: 1 page, pre-populated, requiring only basic information and a signature</td>
</tr>
<tr>
<td>Employees then sent info pack allowing them to set own contribution levels and select investment fund/funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Had to phone, fill in form or write letter. Some attempt to contact opt-outs/non-members to encourage membership</td>
<td></td>
<td>No change in levels of chasing</td>
</tr>
<tr>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
6.2 Implementation issues

For all three enrolment techniques, the changeover was generally considered to have been straightforward, smooth and unproblematic. Employers rarely attempted to budget in advance or account for the costs and time spent implementing the change after it had been accomplished.

6.2.1 Effort required to implement new joining technique

Switching joining technique, in the absence of other changes to the scheme, was viewed by employers as an operational change, not a major strategic one. The implementation process, according to the employers who were studied, had not required a great deal of work and had been uncomplicated.

The work that implementation had required included:

- for Automatic Enrolment schemes, creating a new opt-out form, modifying the terms and conditions of employment contracts, and drawing up letters explaining to employees how Automatic Enrolment works;
- for Active Decisions and Streamlined Joining schemes, developing new application forms;
- for all new joining techniques, making minor changes to employer and provider literature;
- for all schemes but to varying degrees, integrating the employer’s IT systems with those of providers or Independent Financial Advisers (IFAs), and installing new software;
- for some schemes, familiarising staff with new IT systems and enrolment procedures.

6.2.2 Cost and time of implementation

Administering traditional opt-in was widely seen as burdensome and costly by employers and providers, but employers switching to a new technique rarely tried to measure the administrative cost savings they achieved by adopting this different technique. Employers generally had the impression that the implementation process had not been particularly costly, and some were surprised that it had been easier than they had expected.

The entire implementation process, from the initial decision to change enrolment technique to having the new technique up and running, took from two to four months in elapsed time across all of the schemes in the study.

6.2.3 Problems encountered during implementation

Although the change process was generally described as ‘seamless’, isolated problems did arise during implementation. The employers, providers and IFAs who experienced these problems thought they were annoying or embarrassing rather
than serious obstacles to implementation. Instances of implementation problems included:

- ‘minor teething problems’ involving duplication of data at the provider’s end, which were resolved with slightly more effort from the employer during the data entry process;

- mechanisms not properly put in place to ensure that all employees received prior information about being enrolled automatically. The problem was rectified quickly, albeit with some embarrassment;

- postponing a planned upgrade to the employer’s IT systems made them incompatible with the provider’s; as a result, the employer had to enter applicants’ information into a spreadsheet, save it to floppy disk and send it to the provider by registered delivery. Using a spreadsheet instead of sending data to the provider electronically was inefficient unless applicants could be handled in batches, i.e. if quite a few employees joined at the same time. Therefore traditional opt-in continued to be used for single joiners.

6.3 Implementation and the Distance Marketing Directive

The Distance Marketing of Consumer and Financial Services Directive (DMD) is a European directive that aims to provide consumers with protection where financial services are sold to them at a distance. It came into force in the UK on 31 October 2004, after the case studied employers had adopted new enrolment techniques, and its implications for pension scheme joining techniques were reported to be unclear, or were not interpreted consistently, by some of the providers, IFAs and employers interviewed. This report reflects the interpretations of the providers, IFAs and employers interviewed, and does not comment on the accuracy of their views.

6.3.1 Awareness of the DMD

Overall, awareness of the DMD was low among employers who were interviewed about changing their enrolment technique, but it was somewhat more common among employers that had adopted Automatic Enrolment. Some providers serving Automatic Enrolment schemes had made a point of trying to inform themselves and their clients about the DMD and related issues affecting the safe and efficient implementation of Automatic Enrolment.

Employers tended to regard the DMD as ‘just another piece of legislation’ with which they had to contend rather than a source of worrying compliance risks. Providers and IFAs, however, tended to be more aware and more cautious of this directive than employers, who relied on their intermediaries to provide information and advice on issues like those posed by the DMD. Occasionally, providers or IFAs had taken advice from the FSA. Some thought that they were receiving mixed signals concerning pension enrolment, with the Government pushing to increase participation rates and the DMD potentially creating obstacles to enrolment.
Consequently, some providers and IFAs requested that the Department of Work and Pensions (DWP) provide clarity on this issue.

‘A lot of the schemes that haven’t, but would have, gone down the Automatic Enrolment route are not certain about the legality of saying, ‘You’re in a pension scheme unless we hear back from you’. They think that employees will not read the information and then find out they are in a pension scheme and complain about it. So I think DWP need to get a clear message out to employees that you will not have any legal problems if you adopt Automatic Enrolment.’

(Automatic Enrolment provider)

6.3.2 Impact of the DMD on implementation

Confusion about what the DMD required and prohibited was found among some employers, providers and IFAs. As a consequence of the DMD, some were concerned that unless special measures were taken, the new techniques could infringe employees’ autonomy.

The DMD did have an impact on how the new enrolment techniques were implemented in some cases.

For example, in one case the provider’s interpretation of the DMD had a temporarily adverse effect on a scheme’s ability to operate Automatic Enrolment. The provider interpreted the DMD to mean that an employee’s signature was required for enrolment to take place, although the scheme did not have a required employee contribution. A plan was made, therefore, to obtain a signature on an amended contract of employment that would set out the terms and conditions of Automatic Enrolment and note that the employee had knowingly agreed to be enrolled in this way. The new employment contracts were delayed, however, until January 2005, two months after the DMD came into force on 31 October 2004. As a result of this delay and because the scheme had a two year eligibility period, all employees eligible to join the scheme before January 2007, who received unamended contracts as they began work before January 2005, could not be automatically enrolled, according to the provider’s interpretation of the DMD. The employer estimated that the scheme ‘lost’ 43 potential members because of this false start.

Other Automatic Enrolment and Active Decisions adopters interpreted the DMD to mean that they were required to obtain an employee’s signature on a statement of interest in joining before including that individual in the pension enrolment process.

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16 This issue is discussed in ‘Automatic Enrolment in workplace pension schemes: Guidance on the regulatory framework’ which can be found on the internet at www.pensionsatwork.gov.uk or hard copies are available from 0845 7313233 - ISBN: 1-84388-592-1.
The provider to a scheme that adopted Active Decisions sent employees pre-sales documentation about the scheme, asking if employees were interested in joining. The employer proactively chased employees to return this form. Only if employees returned a signed statement of interest would the employer pass on any information about them to the provider and IFA that would allow the intermediaries to make contact with the employees and organise one-to-one meetings. It was at the one-to-one meetings that employees were then asked to make a declaration either way.

6.4 The use of printed communications

Except for application forms, which were greatly shortened and simplified or eliminated by the new techniques, employees tended to receive the same accompanying documents before and after the joining technique changed.

Printed communications typically given to employees before and after the change, regardless of the technique adopted, included:

- key features document;
- membership handbook;
- explanation of fund choice.

Automatic Enrolment eliminated the need for application forms. With rare exceptions, as shown by the example in Section 6.3.2, employees who were automatically enrolled only encountered a form to fill in if they decided to opt-out or wished to change their contribution or investment fund. Commonly, employers reported that to discourage members from leaving the scheme, they required employees to take the initiative by calling the provider to request an opt-out or ‘cancellation of benefits’ form, or by writing to the employer formally expressing their wish to opt-out.

Application forms under Streamlined Joining and Active Decisions were much shorter, simpler and more jargon-free in comparison to traditional opt-in forms, requiring the employee to provide a minimal amount of information. In the case of Active Decisions, this new shortened application form was worded to give the impression that employees were required to make a declaration either way about joining the scheme in a form that had to be returned to the employer. In one instance, this form also contained waivers for both the employee and their spouse or partner to sign, confirming their informed consent to the consequences of not joining: taking what amounted to ‘a pay cut of three per cent of your pensionable pay for every month you defer joining’, and foregoing a lump-sum death benefit in the event of the employee’s death in service.
6.5 The role of in-person communications

As noted in some of the case study summaries in Chapter 3, the amount of in-person communications used before and after the switch to a new joining technique varied from case to case and appeared to be linked as much to employers’ attitudes to pension provision as it was to the technique adopted.

Interviews with employees revealed a consistent preference for in-person communications. IFAs believed that advisory meetings were essential if employees were to make sound personal decisions. The case studies suggest that, to the extent that they were present, relevant, repeated and understandable, communications, especially in-person communications, played an important supporting role when participation rates rose in response to a change in the joining technique.

6.5.1 Summary of in-person communications made available to employees

Sections 6.5.2, 6.5.3, and 6.5.4 examine in detail how and why the amount and frequency of in-person communications changed as a result of the new enrolment techniques. In summary:

- the amount of in-person communication made available to employees by Automatic Enrolment schemes varied between employers;
- the Streamlined Joining adopters that were studied tended to offer less in-person communications than those adopting other techniques;
- the two Active Decisions adopters appeared to offer more in-person communications.

6.5.2 In-person communications under Automatic Enrolment

A switch to Automatic Enrolment was often accompanied by an increase in in-person communications.

Occasionally, Automatic Enrolment adopters cut back on their providers’ and IFAs’ presentations and one-to-one meetings in the workplace because they saw less need for in-person communication when employees were being enrolled automatically. Some other employers did not use in-person communications either before or after the switch to Automatic Enrolment.

IFAs were in no doubt: they thought communications needed to be tailored to each individual’s circumstances if employees were to understand their entitlements and act wisely to exercise their options, and in-person communications were best suited to this task.
‘As it is automatic, we don’t actually need to do anything to get them to join. But they still might want to make a change to their investment fund, they might want to start making a pension contribution where they haven’t before and we could help with all of that. We know that, on the whole, people do benefit from the presentations and they do understand them. There is nothing like being in front of someone. When you have a written document you have to guess and hope that you have got the level of language and technical information right based on the type of audience. Face-to-face, you can gauge the level of knowledge and engagement of the person and react appropriately.’

(Automatic Enrolment IFA)

The in-person communications used by some schemes to support Automatic Enrolment consisted of presentations or workshops scheduled on site and during work time to encourage attendance. These were open to existing as well as newly-eligible employees, although their success with the former group relative to the latter could not normally be ascertained. Occasionally one-to-one meetings were offered afterwards. The opportunity to have one-to-one meetings with employees during work time was seen to be important by providers and IFAs because personal contact brought the subject of pensions alive. To some extent, providers and IFAs believed that the face-to-face presentations and one-to-one meetings were particularly valuable for less well-informed employees because they could compensate for printed material that was pitched at too advanced a level for some.

6.5.3 In-person communications under Streamlined Joining

Since employers adopting Streamlined Joining were not primarily looking to increase membership, they generally did not consider it necessary to change the existing level of in-person communications when the enrolment technique changed.

In many cases no presentations or specific communications efforts were made to inform employees of the new enrolment technique, and usually, there had been little before the switch. Occasionally employers explained that this was because staff had not responded to previous presentations by joining in increased numbers. Some providers and IFAs believed that the employers adopting Streamlined Joining could have done more to encourage new members, and suspected that employers were concerned about the contribution costs of higher participation rates.

In the cases where presentations had been offered before the change, they continued to be offered after the switch to Streamlined Joining. For instance, an employer that adopted Streamlined Joining continued to use presentations to introduce new employees to the company’s pension scheme. One-to-one meetings with the IFA were also offered, although generally at the discretion of division heads, some of whom declined because they considered them to be ‘disruptive’ to settled work routines.

It was exceptional for an employer adopting Streamlined Joining to increase in-person communications. Where it happened, it coincided with an explicit desire to increase participation rates.
6.5.4 In-person communications under Active Decisions

Only two employers adopting Active Decisions were available for study. They wanted to increase participation rates and employees’ interest in pensions, but their use of in-person communications under Active Decisions differed.

In one Active Decisions scheme, the IFA organised one-to-one meetings, scheduled during work time, which were considered to be highly effective. Employees were encouraged to join there and then, which was seen as eliminating the tendency for people to put the form to one side, postponing joining to a later date.

In the other Active Decisions scheme, the level of in-person communications remained the same. Occasional employer pensions clinics and provider presentations continued to be offered, but resources were used mainly to conduct presentations when 15 people or more happened to join the company at the same time.

6.6 Employees’ experience of communications

The dominant feeling among IFAs was that one-to-one meetings and presentations were the most effective ways to communicate with employees. Employees who were interviewed supported this view. Where in-person communications were offered, the reactions of participating employees were generally positive. Where in-person communications were not available, employees frequently said that they were disappointed by the lack of expert information and advice from IFAs or providers when they wanted it. This was the case regardless of the enrolment techniques used by their employer.

Employees valued both presentations and one-to-ones, because they:

- helped them make choices and solve problems in the context of their own circumstances;
- allowed them to engage in two-way, question-and-answer dialogue with an expert and helped to clarify aspects of written information that they had not understood;
- compensated for the fact that due to inertia, they may not have read the written information they had been given;
- solved the problem of not knowing where to turn for extra information;
- allowed pension issues to be discussed in terms employees could understand:

  ‘Someone could have come to talk to me about pensions, because it’s all very well saying “Read the booklet,” but nine times out of ten you don’t.’

  (Automatic Enrolment employee: age 30-39, £15-20K, member)

Five different information needs could be identified in employees’ interviews, as they talked about how and why they had made their decisions about joining the
workplace pension scheme. Employees' information needs fell into these categories:

- information relevant to personal circumstances, e.g. on-line access to their own private pension account;
- specific facts about the workplace scheme, e.g. is there, or is there not, a required employee contribution and how much does the employer contribute;
- retirement planning guidelines and generic information about pensions to inform employees' 'calculations' about whether they can afford to join or contribute to a pension, e.g. forecasts of State Pension and workplace pension benefits, tax advantages of contributing to a pension;
- continuing supply of timely information about pensions and the workplace scheme to keep pensions lively in employees' minds, though employees did not specify how frequently this would be required. This would help to 'catch' them when their circumstances change and to chip away at inertia, e.g. pensions newsletter, chasing non-members;
- plain-speaking, jargon-free information that would not be off-putting for those with little knowledge of financial matters.

6.7 Summary comments

The adoption of a new enrolment technique was found to be straightforward and unproblematic for the schemes case studied, regardless of the technique adopted. The process was commonly:

- executed at middle management level;
- trouble-free, albeit with some additional work needed to develop new application forms and modify systems and administrative routines;
- accomplished within two to four months.

Confusion and misimpressions about the requirements of the DMD were found, and implementation of new techniques, especially Automatic Enrolment, was affected in some cases. Although the DMD came into force too late to influence the decision to switch enrolment technique, greater clarity about how to operate within its requirements may allay fears that the DMD makes Automatic Enrolment riskier to operate, especially if the scheme has a required employee contribution.  

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17 This issue is discussed in ‘Automatic Enrolment in workplace pension schemes: Guidance on the regulatory framework’ which can be found on the internet at www.pensionsatwork.gov.uk or hard copies are available from 0845 7313233 - ISBN: 1-84388-592-1.
The joining process was simplified under Active Decisions and Streamlined Joining by shortening application forms and by eliminating them entirely under Automatic Enrolment. Although employees may have required less help filling in forms, they themselves expressed the need for information and advice about retirement planning, over and above what was provided in literature about workplace schemes.

Employees valued in-person, two-way, problem-solving communications regardless of joining technique. Intermediaries valued in-person communications for their effectiveness in persuading employees to join, and sometimes, to contribute themselves or increase their contributions.

Employers’ commitment to providing such communications varied. This related to their different degrees of commitment to pension provision rather than to the enrolment technique they adopted. Consequently, some employers, especially those adopting Streamlined Joining, did not consider it necessary to change the existing level of in-person communications.
7 The impact of the new enrolment techniques for employees

This chapter examines the impact that the introduction of Automatic Enrolment, Streamlined Joining and Active Decisions had on employees’ attitudes to their company’s pension scheme, and the action they took after the joining technique had changed. In particular, this chapter examines the extent to which the new techniques affected employees’ propensity to join the pension scheme, their contributions and choice of an investment fund, their reasons for not joining and their views about the adequacy of their arrangements for retirement.

It is important that the findings in this chapter, especially those relating to participation rates, membership demographics and contribution rates, are understood in the context of the case study summaries set out in Chapter 3. It would be misleading to draw conclusions about the impact of Automatic Enrolment, Streamlined Joining and Active Decisions on participation rates and employee contributions without considering the other factors that could have affected the outcome in each organisation.

The administrative data that employers were able to provide indicated that:

- Automatic Enrolment was associated with an increase in participation, while participation rates increased only slightly in schemes that switched to Streamlined Joining;

- in the two cases where Active Decisions was adopted, participation rates rose; in one case a marked increase occurred;

- the joining technique used was not the only factor that influenced participation rates after enrolment techniques changed. Required employee contributions, supporting communications, and employer commitment may also have affected the outcomes achieved in different schemes.
There was little evidence in the case studies that changing the enrolment technique had an impact on membership demographics, employee contribution rates or selection of an investment fund.

In all that follows in this chapter, care must be taken not to put too much interpretative weight on evidence from a small number of cases. This is especially true for the two cases where Active Decisions was adopted and the few schemes that could provide administrative data.

### 7.1 Impact on participation rates

Sections 7.1.1 to 7.1.4 examine how each enrolment technique affected participation rates.

#### 7.1.1 Impact of Automatic Enrolment on membership

Table 7.1 shows the participation rates and absolute number of new members in the schemes adopting Automatic Enrolment before and after the change.

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Period over which impact of change was measured</th>
<th>Pre-switch membership (percentage of eligible employees)</th>
<th>Post-switch membership (percentage of eligible employees)</th>
<th>Percentage point difference between pre- and post-switch membership levels</th>
<th>Absolute difference in membership</th>
</tr>
</thead>
<tbody>
<tr>
<td>AE1*</td>
<td>8 months</td>
<td>25</td>
<td>58</td>
<td>+33</td>
<td>258</td>
</tr>
<tr>
<td>AE2</td>
<td>9 months</td>
<td>45</td>
<td>62</td>
<td>+17</td>
<td>37</td>
</tr>
<tr>
<td>AE3</td>
<td>4 months</td>
<td>86</td>
<td>92</td>
<td>+6</td>
<td>217</td>
</tr>
<tr>
<td>AE4</td>
<td>23 months</td>
<td>88</td>
<td>100</td>
<td>+12</td>
<td>-4²</td>
</tr>
</tbody>
</table>

Schemes with a required employee contribution are marked with an asterisk (see Chapter 3 for details).

1. In schemes AE1, AE2 and AE3, only newly-eligible employees were automatically enrolled, and so most employees who became members were newly-eligible, and may in fact have joined the scheme regardless of the enrolment technique. It cannot be assumed that the absolute difference in membership is entirely a consequence of Automatic Enrolment.

2. Due to a reduction in the overall workforce from 335 to 303, the absolute number of scheme members actually fell, even though the membership level increased as a percentage (see Section 3.5 for further detail on this scheme).
The table shows that there was a noticeable rise in membership, as a percentage of all eligible employees, and in most cases in absolute numbers. There was considerable variation in these increases, however, because of scheme-specific factors:

- AE1 was the only automatic enrolment case study that required an employee contribution, which was a minimum of one per cent before and after the change, but under Automatic Enrolment, a default contribution was set at a higher level of five per cent. Therefore, a short-term financial incentive may theoretically have existed under Automatic Enrolment for employees to opt-out of this scheme;

- AE2 offered cash in lieu as an alternative to the employer contribution to employees who opted out. This also provided an immediate financial incentive for employees to opt-out but in this case, the incentive existed before and after the change and did not provide a new reason to opt-out under Automatic Enrolment;

- AE3 reduced communications to employees after Automatic Enrolment was introduced. Interviews with employees suggested that, because of this, some may have mistakenly thought they were required to contribute and opted out as a result;

- AE4 this scheme had previously operated Streamlined Joining, suggesting that even given this simplified enrolment procedure, 12 per cent of eligible employees needed Automatic Enrolment to encourage them to join, despite there being no required employee contribution, and hence no immediate financial incentive to opt-out.

7.1.2 Impact of Automatic Enrolment on participation rates of newly-eligible employees

Section 7.1.1 looks at the impact of Automatic Enrolment on overall membership levels within organisations. Since the new joining techniques were implemented mainly through the induction process for new employees or they targeted employees as they qualified to join the pension scheme, the Department for Work and Pensions (DWP) was also interested in isolating participation rates specifically for newly-eligible employees, i.e. those who became eligible to join the scheme only after the new joining techniques came into use. This is examined in this section. Participation rates have, in all other instances in this report, been calculated on the basis of all employees who were eligible.

Only two of the 11 private sector employers studied, both using Automatic Enrolment, were able to identify newly-eligible employees and provide administrative data for them. In both cases, participation rates for newly-eligible employees were high, higher than for all eligible employees.

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18 Circumstances specific to particular schemes are discussed further in Chapter 3.
In the case of AE1, the participation rate before the change was 25 per cent; it rose to 58 per cent overall after Automatic Enrolment was implemented. Among employees who became eligible to join only after Automatic Enrolment was implemented, the participation rate was 80 per cent, suggesting that Automatic Enrolment was effective at enrolling employees as soon as they became eligible to join the scheme, even though this scheme required an employee contribution of at least one per cent, and defaulting at five per cent. It is noteworthy that this figure of 80 per cent is comparable to participation rates in the public service organisations studied (see Chapter 10), which also had a required employee contribution.

In AE4, participation rates rose from 88 to 100 per cent overall, with participation rates among newly-eligible employees therefore also hitting 100 per cent. This scheme did not require an employee contribution.

7.1.3 Impact of Streamlined Joining on membership

Available data on membership levels for all Streamlined Joining schemes except SLJ3 were approximate, based on provider or employer estimates of the total number of eligible employees (see Chapter 3 for detail). Consequently, precise participation rates for Streamlined Joining schemes are not reported.

It is in any case not possible to make a direct comparison between membership increases in specific Automatic Enrolment and Streamlined Joining schemes, given the very different circumstances facing the schemes. In some instances, required employee contributions may have represented a potential barrier to enrolment where they existed.

These issues notwithstanding, Streamlined Joining was associated with smaller changes in participation rates than Automatic Enrolment in the schemes that were studied.

The variability between Streamlined Joining schemes did not appear to be a direct result of any one single factor, such as the existence of a required employee contribution. Two other factors in particular should be noted when considering the role that Streamlined Joining played:

- the primary aim of the employers adopting Streamlined Joining was commonly to cut administrative costs rather than to increase membership levels;
- the introduction of Streamlined Joining was not visible to many employees, since communications related to pensions tended to change little in these companies, as discussed in Sections 6.4 and 6.5.

In one case, scheme SLJ3, the membership level actually fell after Streamlined Joining was introduced, although the absolute number of members did increase because the number of eligible employees increased. The employer was unable to explain why this had happened, beyond an impression that new employees were less interested in pension saving than existing employees.
7.1.4 Impact of Active Decisions on membership

Available data on membership levels for one of the two Active Decisions schemes, AD2, were approximate, based on provider or employer estimates of the total number of eligible employees (see Chapter 3 for detail). In addition, a relatively short timeframe for measurement of three to seven months was used when measuring the impact of the switch on these schemes. Consequently, precise participation rates for the two Active Decisions schemes are not reported.

Since only two schemes adopting Active Decisions were available for study, it was difficult to draw conclusions about the impact of this joining technique, but participation rates increased in both schemes after the change. In AD1, the participation rate rose from about one-third to almost three-quarters of employees who were eligible to join.

Other factors that appeared to influence the participation rates in Active Decisions schemes included.

- AD1 introduced one-to-one advisory meetings with the Independent Financial Adviser (IFA) for all staff, apart from lorry drivers. Meetings were scheduled during working hours and the employer encouraged staff to attend. This employer also enforced the principle of Active Decisions by ‘chasing’ employees until most had signed a form stating their declaration as to whether to join or stay out of the pension scheme. There was no minimum required employee contribution.

- AD2 despite issuing an application form that gave a clear impression that the employee had to make a declaration as to whether to join the scheme, the employer took no action if employees failed to return the form. Occasional employer pensions clinics and provider presentations were arranged on an ad hoc basis, but usually only when a large number of employees joined simultaneously. Active Decisions was only rolled out to newly-eligible employees, and this scheme operated a required employee contribution.

7.2 Impact on membership demographics

One of the purposes of this study was to examine what types of employees had been influenced to join by the three new enrolment techniques. Had the age, income or gender profile of the membership changed after the joining technique changed? Unfortunately, only four participating employers were able to provide complete information on the age, salary or gender of members versus all employees eligible to join the scheme: two Automatic Enrolment schemes and two Streamlined Joining schemes. This section examines membership profiles in the four schemes that were able to provide this information.
7.2.1 Impact on age profile of members relative to all employees eligible to join

In the four schemes where data were available, the average age of members prior to the change was higher than that of all eligible employees, but usually by only one or two years. Following the change in enrolment technique, it was common for there to be a decrease in the average age of members compared to the average age of all eligible employees. This decrease, however, was very slight.

7.2.2 Impact on salary profile of members relative to all employees eligible to join

In the two Automatic Enrolment cases where data was available, there was negligible difference between the salaries of members and eligible employees before and after the switch in enrolment technique. In the two Streamlined Joining cases, however, members had higher salaries on average than the pool of employees who were eligible to join before the switch.

Overall however, the available data do not show a consistent link between the adoption of a new enrolment technique and the salary profile of members.

7.2.3 Impact on gender profile of members relative to all employees eligible to join

The data available relating to the gender of all eligible employees and members before and after the change showed that the new techniques had no apparent impact on the gender profile of membership.

7.3 Impact on employee contributions

Only seven of the 11 private sector employers were able to provide reliable data on employee contribution levels before and after the switch in enrolment methods, and these were either Automatic Enrolment or Streamlined Joining adopters.

There was no evidence in the available data to show a consistent link between the adoption of a new enrolment technique and an appreciable increase or decrease in the average amount contributed by employees.

Where change did occur it was inconclusive: one Automatic Enrolment scheme showed an average increase of less than one percentage point, and another a decrease of a similar magnitude. In both cases, the employer was not aware that there had been any change in employee contribution levels.
7.4 Investment choices – the use of default funds in Automatic Enrolment schemes

One aim of the case studies was to examine the effect that changing the enrolment technique might have had on members’ consideration of their investment options. Compared to employees in schemes using Streamlined Joining or Active Decisions which do require members to make choices about their investment fund, had employees in schemes using Automatic Enrolment taken less interest and been less involved in making the investment decisions that their schemes presented?

The dominant view among employers, providers and IFAs was that employees were intimidated by the long application forms used under traditional opt-in. Information provided to facilitate selection of an investment fund, which had to be done as employees applied to join the scheme, made a big contribution to the length and density of these application forms. Employers, providers and IFAs commonly thought that requiring applicants to evaluate investment options and select a fund ‘up front’ generated sufficient unease to have turned potential members away from joining. In their interviews, non-members occasionally confirmed that they had retreated from the joining process for exactly this reason.

Automatic Enrolment addressed the problem that selecting an investment fund posed by postponing the need to choose until enrolment had been accomplished, assigning new members to a default fund until they exercised their option to select a different one. Active Decisions and Streamlined Joining still tended to require applicants to select an investment fund but simpler formats were used to accomplish this.

‘Before the change to Automatic Enrolment we had a lot of employees who said, “I didn’t know which fund to choose and so I’ve ended up doing nothing”. Now we just put them into a default fund so that they are up and running. If they want to change their fund, they can ring up the service centre or they can go on to the internet and change their funds online.’

(Automatic Enrolment employer)

The case studies found that once employees were enrolled in a scheme it was rare for them to take the opportunity to change their investment fund. Providers and employers alike agreed that it was rare for employees in Automatic Enrolment schemes to change from the default fund to which they had initially been assigned. There was no case study evidence to suggest that interest in investment options was any greater among Streamlined Joining and Active Decisions employees than it was in Automatic Enrolment schemes: the importance of investment decisions was not asked directly to case study employees in interviews, but it was rarely considered a key issue by members enrolling under any of the techniques. Where mentioned in passing, it was seen simply as another section of the form to fill out.
‘They gave me a leaflet that was talking about growth funds, different funds you could invest in, the property market… I was going to read through it all, but in the end I just went for the default option which invested them in all the places the pension scheme people thought were the best, because they know all about it. I kind of understand it but it seemed like a lot of hassle.’

(Active Decisions employee: age 18-29, £20-25K, member)

7.5 Why employees did not join

The case studies examined why employees decided against joining the workplace pension scheme, and the extent to which the new enrolment techniques successfully overcame these barriers.

Employees’ reasons for not joining generally fell into three categories:

- immediate financial needs with greater claim on earnings;
- inertia;
- having (or anticipating having) other savings in place, typically another pension or property.

7.5.1 Immediate financial pressures

A commonly given reason for not joining the company’s pension scheme was that of immediate financial pressures. Some non-members said that they had made some sort of considered decision not to join.

Non-members interviewed after the change in joining technique frequently explained that their income was insufficient to allow them to save into a pension or that other financial obligations had priority. In particular, mortgages, raising children, paying off debts and the costs of daily living were mentioned as being more pressing than contributing to a pension.

Typically, those earning between £10,000 and £20,000 a year claimed that low income made joining the scheme unaffordable. Some of these non-members went on to say that even if they could contribute a small amount, it would be insufficient to produce an adequate level of retirement income. Consequently they saw no reason to join a pension scheme.

For example, one lower-paid employee explained that her modest income was consumed by the costs of daily living. It is noteworthy, however, that this woman had opted out of an Automatic Enrolment scheme that did not require employees to contribute. Her failure to join was based on a factual error that might have been corrected by more and better information about a scheme she could have joined without cost to herself.

Some better-paid employees also claimed they could not afford to pay into a pension. Employees who dedicated a significant proportion of their income to other
financial commitments, such as a mortgage, also decided not to join their workplace pension scheme. These employees were typically aged 24 to 35, the prime years for family formation, and were better paid, usually earning over £30,000. An employee earning between £40,000 and £60,000 who was in the process of buying a home was unsure whether the pension contributions would be affordable and so did not join, although did eventually reconsider joining the Streamlined Joining scheme.

Employees who felt that they could not afford to save said they had taken the decision not to join the workplace scheme. This happened regardless of the enrolment technique.

‘For me every bit of money counts, even if it does not seem like much to somebody else.’

(Automatic Enrolment employee: age 50-59, £10-15K, non-member)

‘At the moment I don’t feel my basic salary is enough to support my lifestyle... If I was to leave and move to a different company where I was on £16K, I would definitely sort out my pension.’

(Automatic Enrolment employee: age 18-29, £10-15K, non-member)

7.5.2 Inertia: ‘I’ll start saving tomorrow’

Inertia was a barrier to employees joining their workplace pension scheme, but it was not the dominant explanation encountered in interviews with non-members. Nevertheless there were non-members who admitted that they had simply put the issue of pensions to the back of their mind, never giving the subject much thought. Frequently these employees said that they knew they ought to join the workplace scheme and they intended to ‘in the future’, but they simply had ‘not got round to it yet.’ These employees tended to be aged 24 to 35 and felt that they were too young to be worried about retirement.

For example, a member admitted that she had done nothing for a whole year after receiving a pension ‘Welcome Pack’ from her employer, because, in her own words, she was ‘too lazy’ to read it or seek further information. She would have joined earlier, she explained, had she been reminded about it by her employer. Another employee explained that pensions were not a high priority and so he had done nothing about joining. It was only upon prompting from the Payroll Manager that his inertia had been overcome, and he joined. In these and other examples it appeared that continued communications and prompting about pensions might make an impact on inertia-prone non-members.

It was common for employees who had not joined the company pension scheme through inertia to be working for employers who adopted Streamlined Joining and had a required employee contribution. It appears that Streamlined Joining is a weaker tool for tackling employee inertia than Automatic Enrolment, where a required employee contribution was also a little less common among the schemes studied.
‘I’ll probably think about it in ten years time – then I’ll probably join the company’s pension scheme.’

(Streamlined Joining employee: age 18-29, £15-20K, non-member)

7.5.3 Other pensions, savings or investments

Some non-members who were interviewed explained that they had not joined their current employer’s pension scheme because they had, or expected to have, alternative provision for income in retirement. Their thinking is reported in this section but it was impossible to judge whether the other assets mentioned were likely to be adequate, come retirement.

For some, the alternative to joining the workplace scheme was a private pension, a previous company pension or a spouse’s pension. Others were looking to other types of investments, of which property was typically mentioned. Non-members who mentioned having other provision for retirement were typically older, aged 30 to 49, but their incomes were spread across a considerable range.

For example, a non-member aged 50 with an income in the £10,000 to £14,999 range explained that he and his wife had been saving for their retirement, although not into a pension. He had found the information about joining the company scheme clear, but it had not ‘inspired confidence.’ He explained he could not see any benefit in reducing his already small income by contributing to a pension.

Some non-members had already invested in property or viewed their own homes as a sufficient asset to fund retirement. Others said they intended to invest in property in the future. Investing in property was attractive to those who were uneasy about the reliability of pensions and thought property was a more secure or easily understood form of investment.

‘I just don’t think that pensions are worthwhile. I prefer to make an investment in property. Recently it seems that many people have been let down very badly.’

(Streamlined Joining employee: age 18-29, £25-30K, non-member)

Employees claiming to have, or anticipating, other sources of retirement income were found across all case studies, regardless of the enrolment technique used. It seemed that these employees had made a considered decision not to join the workplace scheme, in the light of their personal circumstances. It was not clear whether the reliance these individuals placed on alternative sources of retirement income was justified, but the new enrolment techniques had not overcome their misgivings concerning pension security or the belief that property offered a more reliable return.

7.5.4 Other barriers to joining

One of the merits of stakeholder pensions (SHPs) is their portability. Occasionally, however, employees explained that they had decided not to join their workplace
scheme, which was an SHP, because they were unsure if they were going to stay in their current job. Like the example cited in Section 7.5.1, this may be another instance of non-membership based on lack of understanding about the characteristics of the scheme.

Very occasionally, employees said that they had not received enough relevant information to persuade them to join. For example, a non-member said that she did not understand the information she had been given on contracting out of the State Second Pension, while another had been confused about which investment fund to select. In these cases, it appeared that confusion opened the door to inertia.

Employers and providers explained that, in their opinion, the following factors also acted as barriers to joining:

- low level of financial literacy: an inability to understand the issues made it very difficult for employees to overcome their own inertia or make decisions confidently;
- a young workforce: young workers tended to have lower incomes and did not feel that pension planning was relevant to them yet;
- temporary workers: did not consider that they would be in employment with that particular company for long enough to make it worthwhile to join;
- complex shift patterns, working away from base or at many different sites made communications difficult.

7.6 Awareness of the State Pension

During interviews with employees regarding their plans for retirement, spontaneous mention of the State Pension was rare. In fact, among the few who did mention the State Pension, the belief that they could not rely solely on it in retirement was an important motivating factor in the decision to join a workplace scheme. Some even expected that it would have ceased to exist by the time they retired. This belief that the State Pension is decreasing in value appeared to be informed, at least in part, by media reports.

“You read horror stories of pensioners trying to make ends meet. You can’t rely on the state to provide everything – you know that you have to do some of the providing yourself.’”

(Active Decisions employee: age 40-49, £40-60K, member)

Far from creating a sense of security, perceptions of the State Pension motivated some younger employees in particular to join a workplace scheme, quite apart from the enrolment technique they encountered.

“I joined because a lot of people said I would not get a pension because the Government is scrapping the State Pension and all that, and I was thinking, ‘I’m not getting any younger.’”

(Automatic Enrolment employee: age 30-39, £15-20K, member)
Some employers, IFAs and providers discussed the State Pension with employees during presentations and one-to-one meetings, generally focusing on:

- the uncertainty surrounding the State Pension, stressing that it was impossible to determine what level of benefit would be available in the future;
- the need to save more to achieve a secure future.

‘It was all good. There was a video on what the State Pension is and based on what you earn now, they were saying, ‘Can you afford to live on a State Pension?’ They stressed that you need a little bit more than that to top up your income.’

(Automatic Enrolment employee: age 18-29, £15-20K, member)

In the focus groups, IFAs commonly said that their efforts to educate employees about planning for retirement began with challenging mistaken and overly optimistic assumptions about the State Pension and other state provisions for retirement.

### 7.7 Perceived adequacy of current pension arrangements

When questioned, employees generally thought that their existing pension arrangements would not provide the financial security and lifestyle they wanted in retirement. In rare cases employees thought that they had made suitable provisions, and these tended to be members of their company’s pension scheme who had usually contributed to another scheme in the past. Being enrolled in a workplace pension scheme was not a foolproof recipe for feeling comfortable, however: members were found who had worries about the adequacy of their current arrangements for retirement.

The technique by which members had joined their workplace scheme did not determine the level of confidence felt about the adequacy of their existing arrangements for retirement. Some IFAs who participated in the focus groups were concerned that poorly informed members might expect too much of the workplace plans they had joined, especially if they had been enrolled automatically, although this view was not reflected by the case study IFAs and providers who had actual experience of operating the enrolment techniques.

Faced with an uncomfortable sense of the inadequacy of their existing arrangements for retirement, some non-members who were interviewed claimed that they planned to join the workplace pension scheme in the future, and some who were already members said they intended to increase their contributions or look into other investment opportunities, such as property or ISAs. Some older people were topping up their contributions in their last years of work, occasionally by amounts that were very high relative to their income.

‘I’ll be signing up to the pension scheme soon. This interview has prompted me even more to do this!’

(Streamlined Joining employee: age 30-39, £40-60K, non-member)
Despite their belief that they were failing to save enough, some other employees, both members and non-members, were vague about how they intended to resolve the problem. This was particularly true of the younger employees who were interviewed.

7.8 Summary comments

The limited administrative data available showed that Automatic Enrolment, and to a lesser extent Active Decisions, were associated with a greater increase in participation rates than Streamlined Joining, although other factors, such as required employee contributions, communications and employers’ commitment also appeared to affect participation rates.

The enrolment techniques had a negligible impact on the salary and age profile of membership, and no apparent effect on the gender make-up of membership. Equally, the adoption of a new enrolment technique did not change employee contribution levels.

The case studies also showed that once employees had joined the scheme, very few took the opportunity to change their investment fund.

Interviews with non-members frequently showed that they had considered whether or not to join. Some felt that they could not afford to save into a pension, and in these cases they had either made a conscious decision not to join or, in the case of Automatic Enrolment, had made the effort to opt-out of Automatic Enrolment. Others had, or anticipated having, alternative investments in place to provide retirement income.

Inertia, although less dominant, was a barrier to joining workplace schemes that the new enrolment techniques were able to overcome with differing degrees of success. Some non-members mentioned that their own confusion, and a lack of clear information on points they deemed important, had provided an excuse to do nothing about joining. Inertia was more evident among employees of companies adopting Streamlined Joining, implying that Streamlined Joining was less effective at tackling inertia than the other two joining techniques. Automatic Enrolment schemes’ participation rates benefited from inertia and Active Decisions directly challenged it, while the required employee contributions found in some of the Streamlined Joining schemes appeared to provide an incentive for employees to do nothing about joining.

The State Pension was rarely mentioned by employees, but when it was, perceptions of its growing inadequacy dominated. This motivated some employees to join their workplace pension scheme, regardless of the enrolment technique they encountered. The young in particular felt they would be unwise to rely on the State Pension for their retirement income.
Adopting a new enrolment technique did go some way towards overcoming barriers to joining, and Automatic Enrolment, implemented in the absence of a required employee contribution, appeared to be most effective, especially at tackling inertia. Despite this, barriers to joining and to saving enough were still very much in evidence in the case study interviews.
8 The impact of the new enrolment techniques for employers

This chapter examines the impact on employers of changing enrolment techniques, particularly in relation to their original motivations and expectations. It describes how the change affected their administrative burdens, and whether this resulted in costs or savings, and how this affected employer-employee relations.

8.1 Impact of new enrolment techniques on administrative costs and burdens

As seen in Chapter 4, employers frequently wished to reduce the administrative burden and costs associated with enrolling new members. In the case of those adopting Streamlined Joining this was typically the primary aim, while those adopting Automatic Enrolment and Active Decisions saw this as a secondary benefit rather than the main objective.

The case studies showed that, regardless of the technique adopted, switching enrolment technique nearly always achieved this aim. In one instance the employer failed to achieve this goal because the company’s IT systems were incompatible with its provider’s systems. This employer still felt that some limited administrative benefits had been achieved. A summary of the case is provided in Section 8.1.2.

8.1.1 Administrative savings achieved

Consistently, employers found that adopting one of the new enrolment techniques saved time and effort in managing the enrolment process. They were very pleased with the ‘considerable’ reductions achieved.
Since employees had generally to submit fewer details in the simplified application forms used after the change, employers found that they spent less time checking forms for errors or omissions, or chasing employees to complete the forms. Simplifying the application form also reduced the need for employers to spend time fielding questions about complicated details on the previous forms, they said.

For the case studied employers, the enrolment process became more predictable and automated, the information often transmitted by the employer to the provider online, most commonly in the case of Streamlined Joining. This meant that employers could access membership data directly online, giving greater transparency and control. Employers no longer needed to contact the Independent Financial Adviser (IFA) or provider for membership details or to monitor the application process, because they could do this themselves online. The benefits of greater control and transparency could be considerable, as in the case of one employer that had members covered by different pension arrangements within the same scheme. The employer was able to monitor more easily which employees were covered by which arrangements, ensuring compliance with pension regulations.

For those employers adopting Automatic Enrolment, there had been an important reduction in the amount of action employers had to take. As application forms had been eliminated, employers no longer had to field questions, chase returns, or deal with errors and omissions in the information employees provided.

Adopters of Streamlined Joining in particular and their providers benefited from online data entry and management, allowing information to be transferred quickly and more accurately. Whereas previously the provider entered data from paper applications, Streamlined Joining often shifted most of the data entry work to the employer. Employers, however, could often transfer information directly from their own databases, which made the data entry task less onerous than dealing with the errors, omissions and questions from employees that were common when members joined in the traditional way.

‘In terms of the time needed for the application to get processed, we reckon it is a one day turnaround with Streamlined Joining. Before, it took up to five days, not including time the paperwork spent lying around on the employer’s, IFA’s or our desks. It could have been anything up to 20 days before members received our policy document, whereas now it’s two days.‘

(Streamlined Joining provider)

Online data entry and management was less commonly used in the Active Decisions and Automatic Enrolment schemes studied.

8.1.2 Cost savings achieved

The dominant view expressed by employers was that by reducing the administrative burden associated with the application process, costs had also been reduced. Cost savings, they said, resulted from having to spend less time on the whole process, whether this was chasing employees who had wrongly filled out a form or
contacting the provider to get answers when problems arose. Although employers did not make any attempt to calculate the cost saving achieved, they were confident that adopting the new enrolment technique had been cost-effective.

The hoped for reduction in administrative burdens and subsequent cost savings were not always achieved. In one case an employer that switched to Streamlined Joining did not upgrade the company’s IT systems as expected, and the existing systems became incompatible with the provider’s systems. As a result the employer could not transfer application data electronically, but instead had to enter the data on a spreadsheet, save them to floppy disk, and then post the disk to the provider via recorded delivery. The cost savings of batching applications therefore disappeared when only one or two employees decided to join at a time. For this reason single joiners continued to be enrolled using traditional opt-in. The employer still hoped to upgrade IT systems, allowing Streamlined Joining to be used exclusively in the future.

8.2 Impact of new enrolment technique on employer-employee relations

Employers adopting Automatic Enrolment and Active Decisions often hoped that a change in enrolment technique would have a positive impact on their relations with staff, employee morale, or recruitment and retention, and this is discussed in Section 8.2.1. Section 8.2.2 shows however that this was the case with Streamlined Joining schemes to a lesser extent.

8.2.1 Impact on employer-employee relations for Automatic Enrolment and Active Decisions adopters

Employers adopting Automatic Enrolment and Active Decisions generally felt the same way: that switching enrolment technique had positively benefited employees to some degree, although attitudes were mixed concerning the extent of this impact. No private sector employers had collected formal feedback from employees on this subject, and employers’ opinions were based on general discussions with employees and their own perceptions.

In isolated cases, Automatic Enrolment employers felt that the switch had had no impact whatsoever on staff relations, morale or performance, but had made the scheme much more accessible for employees. These employers were not disappointed with this state of affairs, however.

More frequently, employers using Automatic Enrolment and Active Decisions thought that the switch had been good for employer-employee relations because it showed staff that they were valued. Across both joining techniques, some employers had received positive feedback from staff regarding the joining process, although this related to the whole process and not just the technique. Being seen to fulfil their responsibility to guide and inform employees regarding pension saving also made...
these employers feel positive about the change. Occasionally, employers said staff morale improved after the change, but they pointed out that such intangible benefits were impossible to measure. Exceptionally, an Active Decisions adopter thought that by highlighting the pension benefits the company offered, the new enrolment technique had been good for recruitment and retention.

Generally, employers operating Automatic Enrolment and Active Decisions were pleased with the level of goodwill the switch in enrolment technique had brought with it and added that it had lived up to their expectations, even if they thought it was small.

‘Automatic Enrolment has taken away the doubt that some employees, such as cleaners, may have had, and has made them realise that they do count, that they are entitled to the same benefits as everyone else, regardless of what they do and how much they earn.’

(Automatic Enrolment employer)

8.2.2 Impact on employer-employee relations for Streamlined Joining adopters

Those adopting Streamlined Joining agreed that despite having changed enrolment technique for their own benefit, employees also benefited from a much simpler joining process. They did not think, however, that this had improved their standing with employees, although they pointed out that this had never been their intention.

The employer who adopted Streamlined Joining as much to increase participation rates as to control administrative costs thought that employees had been impressed by the presentations that had been offered, and that this had created goodwill.

8.3 Summary comments

Overall, the effects for employers of changing enrolment technique were said to have been positive. Employers experienced a welcome reduction in the workload of managing the enrolment of new members. They believed that this had saved costs, although no attempt was made to measure this. Only some thought the switch had also had a positive influence on staff relations, because they believed that employees felt more valued.
9 Barriers to adopting Automatic Enrolment

In order to better understand why some employers have chosen not to adopt Automatic Enrolment, telephone depth interviews were carried out with employers that had considered, but ultimately rejected, this enrolment technique.

Open, private sector, defined contribution (DC) schemes that paid an employer contribution and had considered, but rejected, Automatic Enrolment were identified by screening a sample of 950 businesses. Fourteen employers agreed to take part in the study, out of 57 that were identified as being eligible to do so19.

In addition to these telephone depth interviews with employers, 14 Independent Financial Advisers (IFAs) participated in two focus groups. Each IFA had some experience of working with schemes not featured in this study that had considered, but rejected, one of the three enrolment techniques. They were asked about their opinions and experiences of the joining techniques in the UK. These are considered Section 9.5.

9.1 Awareness of Automatic Enrolment

The screening process showed that, in the sample of 950 businesses, acquaintance with the term ‘Automatic Enrolment’ was low overall: some employers who were screened initially misinterpreted Automatic Enrolment to mean compulsion for all to join, while some others assumed it meant that a pension scheme application form was automatically issued to all new employees.

The 14 schemes that qualified had investigated changes to their enrolment procedures and actively considered Automatic Enrolment, either internally or with the schemes’ advisers. Of the 14 recruited, 13 had made the decision not to adopt

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19 The process of identifying rejecters was solely a recruitment exercise, and not a measurement exercise: the sample used was not controlled in such a way as to ensure that it was representative of all UK businesses. More details are available in Section A.3.1 of Appendix A.
Automatic Enrolment, and one had used it for a year before deciding to abandon it. All rejecters operated a traditional opt-in process before considering Automatic Enrolment, and continued to do so after rejecting it.

The following sections examine the rejecters’ reasons for considering and then rejecting Automatic Enrolment. The case of the employer who implemented, but then abandoned, Automatic Enrolment is also summarised.

9.2 Rejecter profiles and reasons for considering Automatic Enrolment

The rejecters fell into three broad segments depending on the employer’s motives for considering Automatic Enrolment:

- employers that felt it was an employer’s duty to look after its employees (Section 9.2.1: ‘Duty-bound’ employers);
- employers that wanted to maximise the goodwill they thought increased membership would bring (Section 9.2.2: ‘Impact-orientated’ employers);
- employers that considered Automatic Enrolment because they wanted to achieve cost savings (Section 9.2.3: ‘Cost-driven’ employers).

The characteristics of these groups are described in the remainder of this section and Section 9.2.4 summarises the rejecters’ demographic profiles in table format.

9.2.1 Duty-bound employers

‘Duty-bound’ employers were dominant. They claimed that they were committed to pension provision and thought it was their responsibility to ensure that employees’ futures were safeguarded. Duty-bound employers often operated a closed defined benefit (DB) scheme as well as the newer DC scheme and were sensitive to the fact that employees working together could be on different packages. They wished to be seen to ensure that non-DB employees were well looked after, and Automatic Enrolment was seen as a way of making sure that everyone eligible for the DC scheme joined as soon as possible.

The employers’ pension ethos was demonstrated by:

- a relatively high employer contribution, ranging up to 12 per cent;
- the involvement of trustees of the closed DB scheme in decision-making for the DC scheme, despite their having no fiduciary responsibility beyond the DB scheme.

The principal aim of the duty-bound employers in considering the switch to Automatic Enrolment was to overcome inertia and boost participation rates as much as possible. Duty-bound employers also thought that an attractive benefits package would distinguish them from their competitors on the basis of their commitment to employees. Some believed that the cost of higher membership might be offset by savings from lower staff turnover.
‘The organisation sees the pension as very important, although individuals don’t always see it that way – and that is our challenge. We think it is important that people start to save for their retirement and we are willing to help them with that. We feel that when people look back in ten to 15 years time, it will be something that they wished they had considered earlier.’

(Rejecter)

9.2.2 Impact-orientated employers

Some ‘impact-orientated’ employers also considered Automatic Enrolment to boost participation rates, but unlike the duty-bound employers, they viewed their company’s pension scheme primarily as a staff recruitment and retention tool. These employers thought that Automatic Enrolment would increase pension take-up, but stressed that employees should make the decision to join.

Typical employer contributions for this group tended to be slightly lower than for duty-bound employers, ranging up to ten per cent.

‘Although it is our responsibility to look after the staff, they have to take a certain amount of responsibility for their own wellbeing and their own future. [Our consideration of Automatic Enrolment] was aimed at improving staff recruitment and retention by showing that once they had joined, the company is looking out for their best interests.’

(Rejecter)

9.2.3 Cost-driven employers

Employers who were ‘cost-driven’ saw that pensions could have recruitment and retention value, and considered it their responsibility to offer a pension, but not to ensure that employees joined.

‘Apart from it being a legal requirement for us to offer a scheme employees can contribute into, I think most employers do offer some sort of contributory scheme and we would either lose staff or fail to attract staff if we didn’t. Our role is one of encouragement rather than enforcement.’

(Rejecter)

These employers considered adopting Automatic Enrolment because they wanted to cut costs by reducing the administrative burden created by traditional opt-in. They tended to have considered Automatic Enrolment only briefly, as they thought it might increase employer contribution costs.

Typical employer contributions tended to range very widely for this group, between one and 12 per cent.

9.2.4 Rejecter demographics

Table 9.1 provides demographic information for the 14 rejecters that were interviewed.
## Table 9.1 Rejecter demographics

<table>
<thead>
<tr>
<th>Scheme type</th>
<th>Ex-DB scheme</th>
<th>Employer contribution</th>
<th>Minimum employee contribution</th>
<th>Number of employees in organisation</th>
<th>Number of employees eligible to join DC scheme</th>
<th>Number of members</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Duty-bound rejecters</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R1 Stakeholder pension (SHP)</td>
<td>Yes</td>
<td>3-8%</td>
<td>3%</td>
<td>9,000</td>
<td>4,500</td>
<td>3,700</td>
</tr>
<tr>
<td>R2 Occupational DC</td>
<td>Yes</td>
<td>4-12%</td>
<td>2%</td>
<td>68,000</td>
<td>34,000</td>
<td>10,200</td>
</tr>
<tr>
<td>R3 SHP</td>
<td>Yes</td>
<td>6%</td>
<td>6%</td>
<td>1,000</td>
<td>1,000</td>
<td>41</td>
</tr>
<tr>
<td>R4 Occupational DC</td>
<td>Yes</td>
<td>5-8%</td>
<td>5%</td>
<td>1,100</td>
<td>840</td>
<td>100</td>
</tr>
<tr>
<td>R5 Group personal pension (GPP)</td>
<td>Yes</td>
<td>3-8%</td>
<td>None</td>
<td>370</td>
<td>100</td>
<td>99</td>
</tr>
<tr>
<td>R6 Occupational DC</td>
<td>Yes</td>
<td>2-8%&lt;sup&gt;3&lt;/sup&gt;</td>
<td>2-4%</td>
<td>950</td>
<td>950</td>
<td>300</td>
</tr>
<tr>
<td>R7 SHP</td>
<td>No</td>
<td>1.5-7.5%&lt;sup&gt;4&lt;/sup&gt;</td>
<td>2%</td>
<td>3,500</td>
<td>3,000</td>
<td>300</td>
</tr>
<tr>
<td><strong>Impact-orientated rejecters</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R8 GPP</td>
<td>No</td>
<td>4% or 7%&lt;sup&gt;5&lt;/sup&gt;</td>
<td>4%</td>
<td>657</td>
<td>605</td>
<td>200</td>
</tr>
<tr>
<td>R9 SHP</td>
<td>No</td>
<td>2-8%</td>
<td>2%</td>
<td>300</td>
<td>275</td>
<td>80</td>
</tr>
<tr>
<td>R10 Occupational DC</td>
<td>No</td>
<td>4-10%</td>
<td>4%</td>
<td>1,200</td>
<td>900</td>
<td>500</td>
</tr>
<tr>
<td>R11 SHP</td>
<td>No</td>
<td>Various</td>
<td>None</td>
<td>150</td>
<td>150</td>
<td>8</td>
</tr>
<tr>
<td><strong>Cost-driven rejecters</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R12 SHP</td>
<td>No</td>
<td>1%</td>
<td>1%</td>
<td>120</td>
<td>100</td>
<td>40</td>
</tr>
<tr>
<td>R13 SHP</td>
<td>No</td>
<td>9-12%&lt;sup&gt;6&lt;/sup&gt;</td>
<td>2-6%</td>
<td>50</td>
<td>50</td>
<td>0&lt;sup&gt;7&lt;/sup&gt;</td>
</tr>
<tr>
<td>R14 SHP</td>
<td>No</td>
<td>8.5%</td>
<td>3.5%</td>
<td>500</td>
<td>140</td>
<td>120</td>
</tr>
</tbody>
</table>

All employers currently operate traditional opt-in. Except where stated, where employer contribution is a range, the employer matches the employee contribution up to the stated level.

1. The SHP scheme was set up in the month before interview. Prior to this, all employees were automatically enrolled into DB scheme. All employees are eligible to join both, but only four new employees had joined the SHP at the time of interview.

2. Membership had reached almost 100 per cent without employing Automatic Enrolment at the time of interview, since the scheme was relatively generous and the employees were highly paid compared to many case study schemes.

3. Employer and employee contributions are dependent on age.

4. Employer contribution is dependent on position or tenure.

5. Employer contribution dependent on position within company.

6. Employer contribution dependent on position within company.

7. SHP scheme was set up in the month before interview. No employees had joined the SHP at the time of interview.
9.3 Reasons for rejecting Automatic Enrolment

There were three main reasons for deciding against Automatic Enrolment. These were common to all employer types, regardless of their attitudes to pension provision or their motives for considering Automatic Enrolment. The three main barriers to Automatic Enrolment were:

- fears that Automatic Enrolment would infringe employees’ autonomy, provoking negative reactions;
- rising employer contribution costs;
- concern that Automatic Enrolment might result in the inappropriate enrolment of some employees.

None of the rejecters studied could see realistic ways around these obstacles.

9.3.1 Automatic Enrolment would infringe employees’ autonomy, provoking negative reactions

The dominant reason for not adopting Automatic Enrolment was concern about how employees would react to being enrolled without their explicit knowledge or consent. Rejecters were worried that employees would feel that their employer was attempting to force them to save, something that they thought would be inappropriate.

Rejecters feared that employees’ objections to Automatic Enrolment would have a negative effect on employer-employee relations. In some cases, this conclusion was reached after consultation with employees. For example, one employer expressed surprise at finding that employees said they would object to being automatically enrolled, even though the scheme did not have a required employee contribution, the employer contribution was relatively generous, an IFA was available to explain the benefits to the employees, and almost all employees tended to join the scheme anyway. He was essentially unable to explain employees’ negative reactions.

‘We had a few people object to it, so we said ‘fair enough’. They did not want us to dictate to them what they were doing; they wanted the option to do what they wanted to do.’

(Rejecter)

It was common for the 14 rejecter schemes to have a required employee contribution, and this may have heightened concerns about enrolling employees automatically.

9.3.2 Rising employer contribution costs

Frequently, rejecters also thought that an unacceptable rise in contribution costs would occur if Automatic Enrolment were adopted. The increase in employer contributions would outweigh any administrative cost savings or gains that might be derived from improved employee morale.
Some employers explained that, while they had been prepared to accept rising contribution costs if they switched away from traditional opt-in, Automatic Enrolment would result in a very large increase happening ‘in one hit’, which would be unacceptable.

‘Potentially we could have another 400 members, at eight per cent of salary, within a three or four year period. Our budgets and margins are based on current numbers and if all of a sudden we had rafts of people join the scheme, Automatic Enrolment would get thrown out of the window, because it would be such a big hit to the company.’

(Rejecter)

Other employers thought that, even if they accepted significantly increased contribution costs under Automatic Enrolment, this would not necessarily be appreciated by employees, who might not wish to join, or might not realise they were receiving employer contributions. Some rejecters went further, wondering why they should make the ‘financial sacrifice’ of a contribution for an employee who had not shown enough interest in receiving it to complete an application form. Employers therefore concluded that Automatic Enrolment would not generate the employee goodwill they expected from offering a better pension.

9.3.3 Concerns over potential misenrolment

Some employers were concerned about the risk of enrolling employees whose interests would not be best served by becoming members. These employers said they were aware that some employees would not be with them long enough to build up a sufficient pension ‘pot’ or that some might already have their own private pension schemes.

Additionally some feared that should the pension fail to perform, employees could have recourse to them, complaining that they had been enrolled without their explicit consent into something that had not given appropriate returns.

‘They could come back to the company and say, ‘You automatically put me in here and it has done nothing for me’.’

(Rejecter)

9.3.4 Other reasons for deciding against Automatic Enrolment

Some employers concluded that adopting Automatic Enrolment would require a communications campaign that would be difficult to organise and costly to execute. These employers recognised that for Automatic Enrolment to be implemented successfully and accepted by employees, they would need to spend time educating employees on the benefits of pension membership and explaining exactly how Automatic Enrolment would operate. As one employer put it, by its very nature Automatic Enrolment implies that ‘you haven’t sold the product to the people’, and this lack of buy-in from employees would need to be addressed for Automatic Enrolment to work. Another employer explained that where the company was
closing a DB scheme and launching an SHP, it was particularly important to ensure that the workforce was well informed about the new scheme. This employer thought it was necessary for employees to attend a presentation and read written communications to make an informed decision regarding their pension membership. Automatic Enrolment was not at all conducive to informed decision making, this employer argued.

Other employers predicted that Automatic Enrolment would create administrative burdens rather than reducing them, since large numbers of employees might decide to opt-out, perhaps all at the same time; if this were to happen, the employer would not have the manpower to cope.

‘I don’t think we communicate well enough now and if we were to implement Automatic Enrolment, we would really, really need to be clear with what we were doing and sell the benefits of that.’

(Rejecter)

9.4 Deciding to abandon Automatic Enrolment: a case study

One DC scheme adopted Automatic Enrolment in 2002, only to drop it a year later. Generalisations should not be made from a single case, but the experiences of this employer give forewarning of potential pitfalls that might be avoided by others implementing Automatic Enrolment.

9.4.1 The employer’s experience of Automatic Enrolment

This firm with 3,500 employees operated in a relatively low-paid sector, and staff turnover had reached 50 per cent a year. In response, the employer introduced a benefits package, consisting of a pension, life insurance and health cover. The pension scheme required a two per cent employee contribution and provided an employer contribution of 1.5 per cent, which rose to three per cent after three years and four per cent after five years. With an eligibility period of one year, the scheme was intended to encourage staff to stay with the firm. Although staff turnover dropped to 35 per cent after the new package of benefits was introduced, the pension scheme’s participation rate was below ten per cent under traditional opt-in.

The employer decided to adopt Automatic Enrolment for newly-eligible employees for a number of reasons, but primarily to boost membership levels, thereby distinguishing itself from other employers in the industry and improving staff recruitment and retention levels.

Subsequently the employer admitted that it had been naive to assume that a large number of employees would want to join the scheme, but this untested assumption had made Automatic Enrolment seem like a solution to several problems. Additionally, no communications campaign was undertaken and employees only became aware that they had been enrolled when money was deducted from their wages. The
employer failed to appreciate that for employees on low salaries, even a small pension contribution was an unacceptable financial sacrifice. As a result of these failures in the implementation of Automatic Enrolment, almost half of those enrolled made the effort and opted out immediately.

‘What we didn’t take into account is that there is a high weighting of people on low pay. Even though we might be giving one and a half, and even three or four per cent after a period of service, we just didn’t realise that the minimum contribution of two per cent that employees had to make was a bar to them being interested.’

(Rejecter)

The administrative burden caused by a high level of opt-outs was considerable, creating extra cost for the employer. The decision was taken to return to traditional opt-in in 2003.

‘When we put the scheme into place three years ago, we thought this was a good benefit for our employees and their future, and we expected uptake to be high. Therefore, it seemed to be better to put everybody into it by default. I suppose we were taking for granted that they would go in. We were a bit naïve there. I think that, right from the start, we had to pay back 50 per cent of the people because they dropped out. Once people saw this little thing coming out of their payslips, they said, ‘Hold on, I don’t want this’. That put us off. Now, we think that the employee has got to make the decision to join first.’

(Rejecter)

9.4.2 Lessons learned

This employer believed that more time should have been invested in communicating with employees:

- beforehand, to understand whether employees wanted to join and contribute;
- during implementation, to inform employees of what was going to happen, especially with respect to payroll deductions for required employee contributions.

The employer claimed still to be committed to increasing membership and even to Automatic Enrolment, but stressed that participation rates were unlikely to rise, even under Automatic Enrolment, unless a communications strategy was put in place which included in-person presentations. If Automatic Enrolment were ever considered again, the employer would want the provider to come up with a convincing communications strategy for the dispersed workforce.

The employer also wondered whether reducing the employee contribution would have made Automatic Enrolment more successful.
9.4.3 The rejecter’s message to the Department for Work and Pensions

This employer stated that it wanted to increase participation rates and was ready to make the employer contributions implied by a 100 per cent participation rate, if Automatic Enrolment had succeeded in enrolling all eligible staff. After abandoning Automatic Enrolment, the employer decided to improve communications. When staff were taken on in sufficient numbers, provider presentations were held to inform them of the SHP. This employer continued to be frustrated by low participation rates, however, and hoped the Department for Work and Pensions (DWP) or some other organisation would offer strategies to overcome this.

‘We are happy to learn from someone else, and if there is another company that has the same problem of dispersal of staff, we would like to know how they manage to get higher take-up. Is what our provider keeps telling us right, that stakeholder schemes have low uptake? We would gladly listen to anyone who can give us advice on how this scheme can work better for us, considering the circumstances we work within.’

(Rejecter)

9.5 Focus group IFAs’ opinions of the enrolment techniques

In addition to the telephone depth interviews with employers, 14 IFAs participated in two focus groups. Each IFA had some experience of working with schemes not featured in this study that had considered, but rejected, one of the three enrolment techniques. They were asked about their opinions and experiences of the joining techniques in the UK.

In general, these IFAs were critical of the complexity and difficulty of the traditional enrolment procedures, especially long and overly demanding application forms.

They believed, however, that enrolment could not be considered in isolation from other more important features of pension schemes, which they tended to think affected participation rates more dramatically than enrolment techniques.

‘If the DWP is focusing on joiners and not on contribution levels and persistency, then they’re focusing on the wrong thing; that’s like getting couch potatoes to join a health club without taking any exercise.’

(Focus Group IFA)

The other features that they thought should be taken into account included:

• the level of employer contributions, which some IFAs thought was by far the most important factor when employees were deciding whether to join the company scheme;
'It doesn’t matter what the techniques are; they are not the problem. People don’t join schemes if the employer doesn’t pay, and it honestly doesn’t matter what the technique is if we don’t engage the employees.'

(Focus Group IFA)

- a required employee contribution, which might discourage joining;
- the level of in-person communications and the availability of information and advice, which IFAs saw as being essential for many employees to make informed choices about joining.

‘It’s how you present things. It’s not the joke; it’s the way you tell it. We have too many people talking at too high a level, not connecting and engaging with the average person.’

(Focus Group IFA)

Notwithstanding their reluctance to consider enrolment techniques independently of other factors, these IFAs had concerns that applied to all three enrolment techniques. A major fear was that without professional advice employees would not be able to make the right decisions about whether to join, which investment fund to select or how much to contribute.

Fear of litigation was also apparent in focus group discussions with IFAs. Although they were active proponents of individuals’ saving and investing for a financially secure future, this was sometimes overshadowed by concerns over misenrolment, particularly with respect to Automatic Enrolment.

‘All these automatic systems, however well or however poorly they work, are extraordinarily dangerous, because we will pick a default fund that we’ll call Advanced Managed Pension Fund and it will be 80% or more equity. It is massively dangerous. You’re going to have your backside sued off you.’

(Focus Group IFA)

There was also fear among some IFAs that their own role would diminish with the introduction of a simplified enrolment technique – particularly Automatic Enrolment. It is important to note, however, that this view tended to be held by those IFAs in the focus groups, who had not necessarily worked with schemes using Automatic Enrolment. The IFAs involved with schemes that used Automatic Enrolment took a more positive view of the technique.

9.6 Focus group IFAs’ opinions of Automatic Enrolment

IFAs acknowledged that traditional opt-in was costly, complicated and not conducive to increasing membership. They had three major concerns about Automatic Enrolment:

- possible marginalisation of their own role;
- employees not receiving information and advice to make sound decisions in the light of their personal circumstances;
• legal issues surrounding Automatic Enrolment and to a lesser extent Active Decisions.

There was doubt among some IFAs that employees who were automatically enrolled knew what their employers were contributing or appreciated the benefit they were receiving, because the inertia on which enrolment under Automatic Enrolment was predicated was consistent with apathy and disengagement.

‘Employees haven’t been educated and they don’t understand what the employer contribution is worth when they retire and how valuable that money is. It’s just free money into some pension. It’s a blind pot being funded and therefore the employer doesn’t get a return of investment in terms of gratitude and goodwill.’

(Focus Group IFA)

There was also concern about legal issues. IFAs with little experience of Automatic Enrolment believed that Automatic Enrolment was unlikely to be entirely automatic in its workings if there was a required employee contribution. The dominant view was that it was unwise, if not illegal, to make deductions from employees’ pay, if they had done nothing to show unambiguously that they had agreed to this.

9.7 Summary comments

Employers that had considered, but rejected, Automatic Enrolment were initially interested in it for the same reasons that attracted the employers who adopted it: a desire to increase participation, either as a goal in itself or to increase goodwill.

Rejecters decided not to adopt Automatic Enrolment mainly because they thought that Automatic Enrolment would infringe employees’ autonomy to make an important financial decision, and that employees would react negatively to this. The fact that a required employee contribution was common among the rejecter schemes meant that they would have needed to make bigger changes to avoid this risk than some of the Automatic Enrolment adopters who were case studied.

Increasing costs of employer contributions under Automatic Enrolment and concerns about the potential for mis-enrolling employees also registered with the rejecters as reasons for deciding not to adopt this technique.

Although generalisations from single cases should be avoided, the experiences of the employer who abandoned Automatic Enrolment mirror the concerns of other rejecters about Automatic Enrolment. Communications were an essential factor and should have been planned and budgeted into the process of implementing

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20 This issue is discussed in ‘Automatic Enrolment in workplace pension schemes: Guidance on the regulatory framework’ which can be found on the internet at www.pensionsatwork.gov.uk or hard copies are available from 0845 7 31 32 33 - ISBN: 1-84388-592-1.
Automatic Enrolment, this employer learnt. Since some of the other rejecters did not wish to go to these lengths, they saw this as a reason to retreat from adopting Automatic Enrolment.

IFAs participating in the focus groups had three concerns about Automatic Enrolment: marginalisation of their own role, lack of support for informed choice with personally relevant information and advice, and legal issues surrounding Automatic Enrolment. Since it tends to be the employer’s identification of problems and the employer’s objectives that initiate the change process, IFAs’ attitudes are unlikely to be a fundamental barrier to change. They may, however, heighten doubts about Automatic Enrolment.
10 Automatic Enrolment in public service organisations

Two public service organisations, one National Health Service (NHS) Trust and one Local Authority, were studied as examples of schemes that had operated Automatic Enrolment for considerable periods of time. These schemes were past any teething troubles that transition to a new joining technique might cause.

Public service schemes were included among the case studies to shed light on three questions:

- How do participation rates and membership profiles behave over the long-term in schemes using Automatic Enrolment?
- What is the experience of members and non-members in public service schemes, and why do some employees opt-out?
- How is Automatic Enrolment communicated to employees and supported in public service schemes?

10.1 Key features of the public service schemes studied

Before evaluating how Automatic Enrolment has worked in public service organisations, it is useful to understand three key features that distinguish these schemes from the private sector schemes that were studied.

10.1.1 Incentives for employees to join

The 11 private sector schemes studied were defined contribution (DC) schemes, whereas the two public service schemes were defined benefit (DB) schemes. The public service schemes studied offered more attractive benefits than the private sector schemes studied:
the typical employer contribution in the public service organisations studied was more generous than in the private sector organisations studied, although employee contributions were also higher;

- final salary DB schemes determine benefits according to members' salaries in their final years of working, which are likely to be their highest paid years. In DC schemes, pension benefits are determined by the investment performance of the fund accumulated from contributions made by the employer and employees, if they contribute. DC schemes shift investment risk from employers, who do not guarantee the benefits, to scheme members.

10.1.2 Required employee contributions

Both of the public service schemes studied had required employee contributions that ranged from five to six per cent at a minimum, even for low-paid workers. Therefore, employees in the public service schemes studied had some immediate financial incentive to opt-out.

10.2 Public service scheme characteristics

Table 10.1 shows that the two public service schemes studied were fairly similar in terms of the contribution required from employees (five to six per cent) and the high participation rates they achieved (77 and 82 per cent). The employer contribution for PS1 was 14 per cent. The employer contribution for PS2, because it was funded and the responsibility of the Local Authority to meet its current pension commitments, was variable, and determined each year by the fund’s actuaries. The contribution level was next due to be revised with effect from 1 April 2005.

<table>
<thead>
<tr>
<th></th>
<th>Employer contribution</th>
<th>Required employee members</th>
<th>Number of eligible members</th>
<th>Number of members (percentage of all eligible)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PS1: NHS Trust</td>
<td>14%</td>
<td>Administrative/professional: 6% Manual: 5%</td>
<td>4,192</td>
<td>3,216 (77%)</td>
</tr>
<tr>
<td>PS2: Local Authority</td>
<td>Variable</td>
<td>6%</td>
<td>9,138</td>
<td>7,516 (82%)</td>
</tr>
</tbody>
</table>

Data provided January 2005.

1 This includes a small number of ‘casual’ (temporary) employees.
10.3 Steps in the Automatic Enrolment process in the public service organisations

Automatic Enrolment worked in broadly similar ways in the two public service schemes studied. In both cases employees were eligible to join the scheme as soon as they commenced work. New employees were given a Welcome Pack explaining the key features of the scheme, their imminent enrolment and how to opt-out or increase their own contributions. This written information was supplemented by a short talk for new employees given by the employer, usually on a monthly basis and lasting about 15 to 30 minutes. If employees did nothing, they were automatically enrolled through the payroll system.

The opt-out process was more difficult for employees than the joining process: employees had to approach the employer to request an opt-out form and to ask for a refund of any contributions deducted from their pay before they could opt-out.

10.4 The role of communications

Employees of public service organisations were given pension scheme information in written and in-person communications. Employers considered communications to be very important in convincing employees of the benefits of joining the scheme. Employees who were interviewed generally thought that they had been given sufficient information to make sound decisions.

10.4.1 Written communications

Schemes gave out substantial Welcome Packs that covered how to:

- increase contributions;
- transfer benefits;
- opt-out;
- rejoin after having opted out;
- make provisions for early retirement.

The schemes’ in-house managers said they wanted to make information in the packs as clear and as comprehensive as possible to minimise the risk of employees feeling confused or misled. Both admitted that it was a challenge to achieve the correct balance between clarity and scope of coverage, and worried that employees were being inundated with information.

‘Pension information being what it is – dry and boring – means my role is to try and make it as simple to follow as possible; there is always the danger that you oversimplify and this could be seen as being misleading.’

(Public service employer)
PS2 had plans to produce a hard-wearing, multi-sectioned Pensions Organiser for new joiners, designed to hold annual benefit statements, key fact cards and a CD version of the scheme’s handbook. PS2 also sent a yearly pension newsletter to all employees that included a questionnaire designed to measure the success of pension communications.

In both cases, written communication was backed up with a query service: a central telephone helpdesk in one case and a dedicated website in the other.

10.4.2 In-person communications

Both public service schemes studied offered presentations within normal working hours which employers expected staff to attend. Employees could also request a one-to-one meeting. The employers considered presentations to be the best way to ‘educate’ employees about the benefits of joining the scheme and to ensure that employees understood the implications of opting out.

‘Everybody has to go to the presentation. I would say the presentations are most important because you can look people in the eye and talk to them in small groups of 20.’

(Public service employer)

PS2 also carried out a heavily promoted pensions roadshow each year to encourage non-members to join and to continue to inform existing members. Take-up by non-members following the roadshow was considered to be ‘disappointing’, however.

10.4.3 Effectiveness of communications

In general, both members and non-members of the public service schemes who were interviewed felt that they had been given sufficient information to make a sound decision about joining the scheme.

Despite its active programme of pension communications, PS2 did provide examples of employees opting out because communications had failed. These employees said they had no prior warning that they would be automatically enrolled. When they noticed that deductions were made from their pay, they contacted the employer. After several phone calls no further information was provided, and these employees opted out of the scheme in frustration.

10.4.4 Follow-up communication with non-members

The two public service organisation employers who were interviewed agreed that, after employees had opted out, it was difficult to persuade them to opt-in again. It was acknowledged that if those opting out continued to be on low pay, to work part-time, or to think of themselves as short-term employees, then the barriers to joining remained.
‘I’ve lost count of the number of instances where people didn’t join the scheme because they only thought they were going to be here for a little while, then ten years later they come to me and say, ‘I wish I’d joined the scheme’.’

(Public service employer)

The public service organisation employers stressed that there was only so much they could do to convince employees to join, and that individuals had to make their own decisions, even in schemes using Automatic Enrolment. Budgetary constraints also affected communications programmes, they said.

Once employees opted out, the pensions-oriented communications they received trailed off, but did not vanish in the public service schemes studied:

- in addition to its annual roadshow and newsletter, PS2 conducted a written communications campaign every two years aimed at encouraging non-members to join, and occasionally placed flyers about the pension scheme in all payslips;
- PS1 did not send any further information to employees who had opted out, although employees were told when they opted out that they could join again at any time. The occasional article about the benefits of joining the scheme also appeared in the staff newspaper ‘just to keep things ticking over’.

10.5 Demographic profile of public service organisation members and non-members

The demographic profile of members and non-members was examined to understand whether demographic barriers might explain why some employees opted out of public service schemes that enrolled employees automatically.

Only PS1 was able to provide anonymous data relating to members’ and non-members’ salary and tenure. In this case, lower paid and short-term employees were more likely than better paid and long-term employees to opt-out.

Anonymous data on the age and gender of members and non-members were available from both PS1 and PS2, but there was no discernable relationship between membership and either age or gender.

10.5.1 Salary and tenure

As shown in Table 10.1, PS1 had a participation rate of 77 per cent, implying that 23 per cent of eligible employees had opted out. Most of the employees eligible to join were on relatively low salaries. Figure 10.1 shows that nearly a quarter fell into the lowest bracket, being paid less than £10,000 a year, and nearly half fell into the next bracket, earning between £10,000 and £19,999.

Figure 10.2 shows the participation rate of employees by salary bracket. All or nearly all employees earning £30,000 or more remained enrolled in the scheme. Non-members were most likely to be found among those earning £19,999 or less a year.
The average salary of non-members was £12,000; the average salary of members was £19,000.

**Figure 10.1** PS1: Proportion of eligible employees in each income bracket

Base: 3,377, all eligible employees for whom salary data were available. Data on salary could not be collected from the payroll system for the remaining 815 employees (see Section A.6 of Appendix A for more information on the problems encountered in collecting administrative data).

**Figure 10.2** PS1: Participation rate within each income bracket

Base: 2,862 members for whom salary data were available; 515 non-members for whom salary data were available. Data on salary were not available for the remaining 815 employees.
Figure 10.3 PS1: Participation rate by tenure

Data relating to members’ and non-members’ income and tenure were not available for PS2. Anecdotal evidence from the employer was consistent with the story emerging from the PS1 data: non-members tended to earn relatively low salaries or be part-time workers. The employer explained that the most common reason given by employees for opting out was that they could not afford to join a scheme where the required employee contribution was six per cent of salary.

For those on low salaries, a required employee contribution of five or six per cent appeared to have created a short-term financial incentive for less well-paid employees to opt-out at a greater rate than better-paid employees did.

10.5.2 Age and gender

There was no apparent relationship between public service pension scheme membership and age. The average age of members and non-members was very similar.

In terms of gender, Table 10.2 shows that there was no difference between men’s and women’s propensity to opt-out of the PS1 scheme, but Table 10.3 shows that women were slightly more likely to opt-out of the PS2 scheme. The employer thought this was because women were more likely to be doing casual or part-time work and earning lower incomes.
Table 10.2  PS1: Proportion of members and non-members by gender

<table>
<thead>
<tr>
<th></th>
<th>All eligible employees: row percentages</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Members</td>
<td>Non-members</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>75</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>77</td>
<td>23</td>
<td></td>
</tr>
</tbody>
</table>

Base: 865 all eligible male employees; 3,327 all eligible female employees; 4,192 all eligible employees, male and female.

Table 10.3  PS2: Proportion of members and non-members by gender

<table>
<thead>
<tr>
<th></th>
<th>All eligible employers: row percentages</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Members</td>
<td>Non-members</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>87</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>80</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

Base: 2,589 all eligible male employees; 6,549 all eligible female employees; 9,138 all eligible employees, male and female.

10.6  Employees’ decisions to join or opt-out

Members of the two public service schemes who were interviewed were pleased to be enrolled in workplace schemes they thought were generous and secure. The reasons non-members gave for opting out were consistent with those given by non-members in the private sector case studies and with findings in Section 10.5.1, which showed that non-members were more likely to be found among low paid and part-time employees in the public service schemes studied. Although non-members of public service schemes who were interviewed thought that they had made the right decision to opt-out, they also expressed concerns about their retirement prospects.

10.6.1 Reasons for accepting enrolment

Members of public service schemes who were interviewed felt that their schemes offered generous benefits and greater security than was typical in private sector schemes. Some mentioned that private sector schemes had received a bad press when they failed to pay expected benefits. Some believed that the security and generosity of their pension scheme was an acceptable trade-off for working in a sector where employees generally were not highly-paid.

‘It’s worth working for a lower salary to get the very good pension deal.’

(Public service employee: age 50-59, £30-40K, member)
'It’s very generous compared with the private sector. There are not many other benefits, so I think that an accumulation of pension remuneration and the stability of being in a single scheme has got to be a factor in looking at the overall employment package.’

(Public service employee: age 40-59, £40-60K, member)

10.6.2 Reasons for opting out

Employees of public service organisations who were interviewed differed from those in private sector DC schemes in that even among non-members there was some recognition that the schemes offered relatively generous benefits, even if such impressions were gained second-hand from colleagues. In the private sector, non-members were less likely to be forthcoming about the generosity of their employer’s scheme.

‘I would say it’s pretty good...I’m not in it but from what I’ve been told about it, they do contribute quite a lot.’

(Public service employee: age 18-29, £10-15K, non-member)

Partially for this reason and because the schemes operated Automatic Enrolment, inertia did not appear to be the barrier to joining that it was in private sector schemes. As discussed in Section 7.5.2, in the private sector some non-members admitted that they had simply put the issue of pensions to the back of their mind. In the public service schemes studied, inertia of this kind meant that employees were automatically enrolled.

As a result, non-members of public service schemes typically had very clear and specific reasons for opting out of the scheme. Their reasons fell typically into two categories:

- immediate financial pressures;
- short-term employment within the organisation concerned.

Each of these reasons are discussed below.

Immediate financial pressures

Both of the public service schemes studied had required employee contributions that ranged from five to six per cent at a minimum, even for low-paid workers. Therefore, employees in the public service schemes studied had some immediate financial incentive to opt-out. Typically there were two aspects to this, mirroring those of employees in the private sector:

- some said that their incomes were too small;
- others said that they had other more pressing financial commitments.
'I couldn’t really afford to lose any more of my monthly wages, because I was earning under five pounds an hour.'

(Public service employee: age 30-39, £10-15K, non-member)

'I had just moved out of living with my parents. I thought that the money being taken out for my pension would help towards my bills. So I just opted out.'

(Public service employee: age 18-29, £10-15K, non-member)

**Short-term employment**

Some non-members also explained that they did not think it was worth joining the pension scheme because:

- their present employment was likely to be short-term;
- they worked part-time.

'I’ve yet to decide whether I’ll stay for any great length of time. I was in the NHS before; then I took a 3-year break. You don’t join it in case you don’t stay in the job.'

(Public service Employee: age 30-39, £20-25K, non-member)

As discussed in Section 7.5.4, this reason for choosing not to join was rarer in the private sector because stakeholder pensions, unlike public service DB schemes, are designed to be portable.

The example of the employee quoted above may also illustrate a form of inertia: although the initial decision to opt-out of joining was an active one, from that point onwards there was little to prevent the ‘I’ll start saving tomorrow’ attitude from setting in. Non-members were satisfied rather than happy with their decisions to opt-out. There was noticeable concern among non-members, however, because they felt that they were not saving enough for retirement. Despite their concern, non-members did not seem to know how to remedy the situation, given their personal circumstances.

'Purely and simply, I can’t afford to do it as yet.’

(Public service employee: age 30-39, £10-15K, non-member)

'Well, obviously it would be more beneficial for my future if I was in the pension scheme, but at the moment I think I benefit more from not being in it. Just at the moment my personal circumstances mean I need the money to live on.’

(Public service employee: age 18-29, £10-15K, non-member)

'I’m reaching the age now where I am starting to panic.’

(Public service employee: age 40-49, £20-25K, non-member)
10.7 Summary comments

The public service case studies showed that Automatic Enrolment was associated with high participation rates, although other factors were also important:

- secure pension benefits in terms of the link to final salary;
- committed employers, with a financial incentive to increase participation rates;
- comprehensive communications programmes.

Despite this some employees decided to opt-out. There were three related reasons for doing this: low pay, size of required employee contribution, and part-time or short-term working.

The public service case studies also showed that where the benefits of the scheme were not successfully communicated to employees, there was an increased risk of employees opting out. This highlighted the role that communications play in backing up Automatic Enrolment and increasing participation rates.

Anecdotal evidence from the public service case studies suggested that once employees had opted out, it was difficult to convince them to join again.
Appendix
Methodology

This appendix summarises the methodological approaches that were applied in evaluating three pension scheme enrolment techniques: Automatic Enrolment, Streamlined Joining and Active Decisions. The research was structured into three phases:

- exploratory research involved background interviews with expert observers of pension developments;
- qualitative case study research was devoted to 11 private sector schemes and two public service schemes that were using one of the joining techniques;
- qualitative research into the barriers to change was based on 14 depth interviews with private sector employers who had considered but rejected Automatic Enrolment, or in one case, adopted but later rejected it (the rejecters).

In addition, two focus groups were held with Independent Financial Advisers (IFAs) to explore their attitudes to the enrolment process and the techniques.

Table A.1 summarises the methodology used in each phase and indicates where in this appendix details can be found of the methodology used in each phase.

- Section A.1 deals with the original envisaged methodology and where revisions had to be made.
- Section A.2 deals with the exploratory research.
- Section A.3 covers the qualitative case study research.
- Section A.4 is devoted to the research into the barriers to change.
- Section A.5 describes the focus groups with IFAs.

Section A.6 of this appendix summarises the limitations in the administrative data that could be collected. This sets the scene for Section A.7, which discusses the implications of the data collection problems that were encountered in this study and lessons learnt.
Table A.1   The design of the evaluation

<table>
<thead>
<tr>
<th>Phase 1 Exploratory research</th>
<th>Phase 2 Qualitative case studies</th>
<th>Phase 3 Barriers to change</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 04 – March 05</td>
<td>September 04 – June 05</td>
<td>January 05 – April 05</td>
</tr>
</tbody>
</table>

**Background interviews with experts and practitioners: Section A.2**

Twelve face-to-face depth interviews with representatives from organisations selected to provide eight broad perspectives:

- Government;
- Providers;
- Professional associations;
- Public service organisation employers;
- Private sector employers;
- Regulatory agencies;
- Employees;
- Academic research on pensions.

**Case study recruitment: Section A.3.1**

Liaison between the Department for Work and Pensions (DWP), research team, providers and employers, to identify schemes that had switched from traditional opt-in to one of the enrolment techniques studied and fulfilled the eligibility criteria (see Table A.5).

Thirteen employers recruited: 11 private sector defined contribution (DC) schemes, and two public service defined benefit (DB) schemes.

**Private sector qualitative interviews: Sections A.3.2 & A2.3.3**

Face-to-face depth interviews with 30 scheme-level respondents, two or three in each of the 11 schemes studied:

- Employers’ scheme administrators (Pensions, Payroll or HR Managers; Finance Directors);
- Providers;
- Scheme IFAs.

Telephone depth interviews with 69 employees from eight of the 11 schemes, including both members and non-members of the pension scheme.

**Recruitment of rejecters: Section A.4.1**

Private sector DC schemes that were open, paid an employer contribution, and had considered but rejected Automatic Enrolment were identified by screening a sample of 950 businesses.

Fourteen employers agreed to take part in the study, out of 57 that were identified as being eligible to do so.

**Rejecter interviews: Section A.4.2**

Fourteen telephone depth interviews, one with each scheme’s main internal manager or director, e.g. Payroll, HR or Finance Directors.

**IFA focus groups: Section A.5**

Two focus groups, one in London and one in Leeds, each with six to eight IFAs from different organisations who had worked with companies that had considered or used one of the tested enrolment techniques, but who had no connection with the case studied schemes.

Discussions focused on barriers to adoption of the new joining techniques.
<table>
<thead>
<tr>
<th>Phase 1 Exploratory research</th>
<th>Phase 2 Qualitative case studies</th>
<th>Phase 3 Barriers to change</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 04 – March 05</td>
<td>September 04 – June 05</td>
<td>January 05 – April 05</td>
</tr>
</tbody>
</table>

**Public service qualitative interviews:**  
Section A.3.5  
Face-to-face depth interviews with three scheme administrators in the two schemes studied.  
Telephone depth interviews with 16 employees, eight from each scheme, including both members and non-members.

**Administrative data collection:** Section A.3.4  
Where possible, payroll data were collected from employers on individual employees eligible to join the scheme, to measure the impact of changing the joining technique on participation rates, employee contributions and membership profiles of employees before and after the change; and in public service organisations, to compare the profile of members and non-members.
A.1 Original study design and revisions to the methodology

As work progressed, it was necessary to amend the methodology that had initially been proposed because of problems that were encountered, principally the unexpectedly low incidence of employers who met the recruitment criteria, and employers’ inability to provide administrative data.

This section summarises the features of the initial research plan that were modified to cope with the realities discovered in the course of conducting this study.

A.1.1 Barriers to employer participation

Table A.2 summarises the modifications that needed to be made as a result of difficulties in recruiting employers.

Table A.2 Barriers to employer participation

<table>
<thead>
<tr>
<th>Originally envisaged methodology</th>
<th>Issues encountered</th>
<th>Revised methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Total of 15 private sector case studies to be conducted – with five employers using each enrolment technique.</td>
<td>• Only two Active Decisions schemes could be recruited, and four Automatic Enrolment schemes.</td>
<td>• Total of 11 private sector employers were case studied.</td>
</tr>
<tr>
<td>• All schemes to fulfil recruitment criteria in Table A.5.</td>
<td>• Many schemes had adopted Streamlined Joining and Active Decisions more recently than six months prior to research.</td>
<td>• Some of the studied schemes’ switch dates fall outside the preferred period of six to 18 months prior to research.</td>
</tr>
<tr>
<td>• Half of private sector schemes recruited to be trust-based.</td>
<td>• Only four Automatic Enrolment schemes could be recruited that fulfilled eligibility criteria.</td>
<td>• All private sector schemes case studied are contract-based except SLJ3.</td>
</tr>
<tr>
<td>• Two private sector DB case studies operating one of the techniques to be included in the study.</td>
<td>• Only one trust-based scheme could be recruited.</td>
<td>• Only DC schemes were included in the private sector section of the evaluation.</td>
</tr>
<tr>
<td></td>
<td>• No private sector DB schemes that fulfilled the recruitment criteria could be identified by providers.</td>
<td></td>
</tr>
</tbody>
</table>

During the process of recruitment, many employers were identified that were unable to take part in the study because they:

• failed to satisfy the eligibility criteria for inclusion in this study;

• refused to take part, although they were eligible to do so;

• exceeded the quotas set with the DWP for cases from particular industries, although they were eligible and willing to participate.
Among the companies that refused to participate, the following reasons were commonly cited, although it was not possible to establish reasons for refusal in every case:

- employers lacked time to complete the range of tasks required of them;
- it was impossible to provide any scheme-level administrative data;
- employers were unwilling to extract anonymous employee-level information and supply it to a third party, even with confidentiality assured;
- lack of interest in the study.

Although many eligible employers declined because of a lack of time to participate in the study in its entirety, many others declined because they thought they would not be able to access the administrative data required, or because a great deal of time and effort would be needed to extract it. Some employers also feared that embarrassing shortcomings in their databases would be revealed as a result of sharing them with researchers.

The final case study recruitment criteria are given in Table A.5.

### A.1.2 Other revisions to research methodology

Aside from case study recruitment issues, a number of other revisions had to be made to the research methodology over the lifetime of the study. These are summarised in Table A.3.

**Table A.3 Other revisions to the research methodology**

<table>
<thead>
<tr>
<th>Originally envisaged methodology</th>
<th>Issues encountered</th>
<th>Revised methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anonymous employee-level administrative data to be collected from all employers, to measure the impact of the switch on participation rates, employee contributions and membership profiles of employees.</td>
<td>Extremely limited anonymous employee-level data available.</td>
<td>Limited analysis possible of the impact of changes in joining technique on participation rates, employee contributions and membership profiles of employees.</td>
</tr>
<tr>
<td>Ten depth interviews to be conducted with representatives of public service schemes; but no case studies to be conducted in public service organisations.</td>
<td>Case studies deemed necessary to explore the demographics and attitudes of members and non-members of public service schemes.</td>
<td>Two full case studies conducted of public service schemes.</td>
</tr>
</tbody>
</table>

Continued
Table A.3  Continued

<table>
<thead>
<tr>
<th>Originally envisaged methodology</th>
<th>Issues encountered</th>
<th>Revised methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twenty depth interviews to be conducted with employers who had considered but rejected one of the enrolment techniques, identified and recruited by the providers involved in the study.</td>
<td>Providers could not identify any rejecters that qualified for the study.</td>
<td>Rejecters of Automatic Enrolment identified through screening and 14 were interviewed.</td>
</tr>
<tr>
<td></td>
<td>Rejecters still deemed necessary, to understand the barriers to the adoption of the enrolment techniques.</td>
<td>Additionally, two focus groups with IFAs conducted, exploring barriers to the techniques.</td>
</tr>
<tr>
<td></td>
<td>Automatic Enrolment identified as the principal technique against which resistance was likely to be encountered.</td>
<td>Three additional exploratory interviews with experts conducted to extend understanding of the barriers to change, increasing the total to 12 from nine that were planned.</td>
</tr>
</tbody>
</table>

Because the lack of anonymous employee-level administrative data affected our ability to measure the impact of the new enrolment techniques, this issue is discussed in more detail in Section A.6.

A.2  Exploratory research: November 04 – March 05

Exploratory interviews with 12 pension experts and practitioners were undertaken to identify key issues surrounding the joining techniques, to establish priorities for subsequent data collection and to develop the structure for analysing the case studies. These hour-long, face-to-face interviews were carried out by members of the project management team at RS Consulting.

The organisations that took part in the exploratory interviews are listed in Table A.4.

Table A.4  Organisations participating in the exploratory phase of the research

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Organisations participating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government policy</td>
<td>• Department for Work and Pensions</td>
</tr>
<tr>
<td>Public service organisation employers</td>
<td>• Office of the Deputy Prime Minister</td>
</tr>
<tr>
<td></td>
<td>• Cabinet Office</td>
</tr>
<tr>
<td>Regulatory agencies</td>
<td>• Financial Services Authority</td>
</tr>
<tr>
<td></td>
<td>• Occupational Pensions Regulatory Authority¹</td>
</tr>
<tr>
<td>Providers</td>
<td>• Association of British Insurers</td>
</tr>
<tr>
<td>Industry; private sector employers</td>
<td>• Confederation of British Industry</td>
</tr>
<tr>
<td></td>
<td>• British Chambers of Commerce</td>
</tr>
<tr>
<td></td>
<td>• Engineering Employers Federation</td>
</tr>
<tr>
<td>Associations</td>
<td>• National Association of Pension Funds</td>
</tr>
<tr>
<td>Employees</td>
<td>• Trades Union Congress</td>
</tr>
<tr>
<td>Academic research on pensions</td>
<td>• Pensions Institute at Cass Business School, City University</td>
</tr>
</tbody>
</table>

¹ Now The Pensions Regulator.
The topics covered in the interviews differed, depending on the particular expertise of the respondents.

A.3 Qualitative case study research

This section describes how the case studies that formed the main body of the evaluation were organised and carried out. Eleven of the 13 schemes case studied were in the private sector, and so Sections A.3.1 through A.3.4 cover the case study process that applied to these employers. The approach taken to the public service case studies differed to a small extent; these differences are noted in Section A.3.5.

A.3.1 Recruitment of private sector schemes (September 04 – February 05)

Recruitment of private sector schemes for this study began with the DWP identifying a range of UK providers and IFAs that made one or more of the joining techniques available to the schemes they served, and were willing, in principle, to co-operate in evaluative research devoted to the techniques. The DWP asked these providers to identify schemes that had switched from traditional opt-in to one of the enrolment techniques studied and would meet the recruitment criteria set out in Table A.5.

The purpose of the 12 recruitment criteria was to identify schemes that had changed only their joining technique and no other aspects of the scheme that could influence employees’ decisions about joining. With only this one change having occurred, changes in participation rates, employee contribution levels, and the profile of members could more readily be attributed to the change in joining technique.

Table A.5 Recruitment criteria for private sector schemes eligible for study

<table>
<thead>
<tr>
<th>Type of information required to establish eligibility</th>
<th>Before adopting current enrolment technique</th>
<th>After adopting current enrolment technique</th>
<th>Exceptions, if any, to stated criteria among the 11 schemes studied</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Scheme type</td>
<td>DC</td>
<td>No change: DC</td>
<td>None</td>
</tr>
<tr>
<td>2) Scheme status</td>
<td>Open</td>
<td>No change: Open</td>
<td>None</td>
</tr>
<tr>
<td>3) Sector</td>
<td>Private</td>
<td>No change: Private</td>
<td>None</td>
</tr>
<tr>
<td>4) Confirmation that scheme is the employer's main open scheme1</td>
<td>Yes, main scheme or one of main schemes</td>
<td>No change: main scheme</td>
<td>None</td>
</tr>
<tr>
<td>5) Eligibility criteria employees must satisfy to join the scheme</td>
<td>Any/all were acceptable</td>
<td>No change: any/all, provided none changed</td>
<td>None</td>
</tr>
</tbody>
</table>

Continued
### Table A.5  Continued

<table>
<thead>
<tr>
<th>Type of information required to establish eligibility</th>
<th>Before adopting current enrolment technique</th>
<th>After adopting current enrolment technique</th>
<th>Exceptions, if any, to stated criteria among the 11 schemes studied</th>
</tr>
</thead>
<tbody>
<tr>
<td>6) Status as trust-based vs. contract-based</td>
<td>Either was acceptable</td>
<td>No change</td>
<td>None</td>
</tr>
<tr>
<td>7) Joining technique</td>
<td>Traditional opt-in, or exceptionally Streamlined Joining</td>
<td>Changed to Automatic Enrolment, Streamlined Joining or Active Decisions: must have adopted a new joining technique</td>
<td>AE4 switched from Streamlined Joining to Automatic Enrolment</td>
</tr>
<tr>
<td>8) Period of time that the new joining technique had been in use prior to case study research</td>
<td>–</td>
<td>Generally 6-18 months prior to the evaluation</td>
<td>SLJ1, SLJ2, AD1 and AD2 switched 4-5 months prior AE4 switched 2 years prior</td>
</tr>
<tr>
<td>9) Employer contribution</td>
<td>Required, but no minimum specified: 8 of 11 contributed 3%+</td>
<td>No change</td>
<td>None</td>
</tr>
<tr>
<td>10) Minimum employee contribution required to receive employer contribution</td>
<td>Any/none</td>
<td>No change: any/none, provided none changed</td>
<td>None</td>
</tr>
<tr>
<td>11) Number of scheme members</td>
<td>2+ (expected to change)</td>
<td>2+ (expected to change)</td>
<td>Not subject to control during recruitment</td>
</tr>
<tr>
<td>12) Number of employees eligible for scheme</td>
<td>2+ (expected to change)</td>
<td>2+ (expected to change)</td>
<td>Not subject to control during recruitment</td>
</tr>
</tbody>
</table>

1 For the purposes of this study, this was defined as the open scheme for which the largest number of employees were eligible in the UK.

Where there was sufficient information to identify a likely qualifier, the research team, on behalf of the DWP, and through the provider, approached the employer directly to request their agreement to participate in the study, and then to attempt to collect from these employers the scheme-level administrative data needed to establish their eligibility.

To collect all of the administrative and interview data required for a complete case study, it was necessary for employers to be ‘on board’ for a period of around four months. This was spelt out when employers were asked to take part in the study, in fairness to them and to reduce drop-outs later. Data protection and client confidentiality issues were also addressed. Employers were assured that all data would remain anonymous, they would not be identified, and no administrative or interview data would be passed in attributable form from the research team to any third party.
As a gesture of gratitude, participating employers were promised two copies of the final report of the study’s findings.

Given the difficulties involved in recruitment due to the very low incidence of employers using the techniques that met the criteria, in exceptional cases it was agreed with the DWP to relax certain recruitment criteria, as detailed in Table A.5, for the following reasons:

- since the enrolment techniques had only recently been introduced in DC schemes, requiring them to have been in operation for six to 18 months before the study took place would have resulted in too few employers being available. Consequently, four employers were selected that had implemented their joining technique just four months before the collection of the post-switch data;

- employer AE4 was subject to an industry-wide agreement to use Automatic Enrolment: it switched from Streamlined Joining to Automatic Enrolment two years prior to the evaluation. At the time, the adoption of Automatic Enrolment was unusual outside of the industry in question, and so, although this early adopter was outside of the timeframe set for recent implementation, it was considered acceptable to include one of the first private sector DC schemes to adopt Automatic Enrolment.

A.3.2 Qualitative interviews with employers, providers and IFAs (January 05 – April 05)

The core of the research programme consisted of face-to-face depth interviews with 30 scheme-level respondents in the 11 private sector schemes studied. In every case, one or two scheme administrators were interviewed to understand the issues facing the employer. An interview was also conducted with each scheme’s provider.

In some cases, initial discussions with the employer revealed that an IFA had been involved in making the decision to change away from traditional opt-in or had been relied upon by the employer to assist in implementing the joining technique. In these cases, an interview was also sought with the scheme’s IFA.

The number of qualitative interviews with pensions managers, providers and IFAs are shown for each case study in Table A.10. Table A.6 summarises this information and lists the job titles typically held by respondents of each type.
Table A.6  Qualitative interviews conducted with employers, providers and IFAs

<table>
<thead>
<tr>
<th>Respondent type</th>
<th>Number of interviews conducted</th>
<th>Typical position of respondent</th>
</tr>
</thead>
</table>
| Employer        | 15 (one in seven schemes and two in four schemes) | • Pensions Manager  
• Payroll Manager  
• HR Director  
• Finance Director |
| Provider        | 11 (one for each scheme)       | • Client Relationship Manager  
• Scheme Manager  
• Communications Manager |
| IFA             | 4 (one per scheme, where possible, if an IFA was involved in the switch) | • Client Relationship Manager  
• Communications Manager  
• Consultant |

Case studies were based predominantly on qualitative evidence gained in depth interviews. The topic guides used in interviews appear on the DWP website. The areas covered were:

- the employer’s overall attitude to the pension scheme;
- how the enrolment process functioned under traditional opt-in;
- why the employer decided to change the enrolment technique; who was involved in the decision-making process, and who led it;
- what was involved in implementing the new technique;
- how the functioning of the new technique compared to the previous traditional technique, and to the employer’s expectations and objectives;
- how did printed and in-person communications to employees compare, before and after change;
- what was the impact for the employer of switching, in terms of cost, administrative burden, employee morale and any other consequences;
- what problems or surprises were experienced by the employer;
- overall, how successful was the new technique and the process of implementing it.

The specialist executive interviewing team at Consensus Global, an RS Consulting Group subsidiary, arranged and conducted all of these interviews. The interviews

were conducted face-to-face, and they lasted around 45 minutes. Interviews with employers took place at the workplace. Providers and IFAs were usually interviewed at their offices, although in a minority of cases, the intermediary was interviewed during a visit to the employer’s premises.

A.3.3 Qualitative interviews with employees (January 05 – April 05)

Qualitative interviews were also carried out with employees eligible to join the pension schemes being studied, to understand their experiences of the joining process, the ease of enrolling or choosing not to, their level of awareness about pensions and their workplace scheme, and the quality and appropriateness of the communications and application forms they received.

For each case study, interviews were sought with members of the pension scheme and non-members, including employees who became eligible under both the new and old techniques. Therefore, there were four groups of employees from whom interviews were sought, two of each type in a scheme if the distribution of membership and eligibility in the workforce allowed it. These four groups are described in Table A.7.

<table>
<thead>
<tr>
<th>Time when employee became eligible to join the pension scheme</th>
<th>Whether or not employee joined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible before switch</td>
<td>Joined after switch</td>
</tr>
<tr>
<td>Eligible before switch</td>
<td>Did not join after switch</td>
</tr>
<tr>
<td>Became eligible after switch</td>
<td>Joined after switch</td>
</tr>
<tr>
<td>Became eligible after switch</td>
<td>Did not join after switch</td>
</tr>
</tbody>
</table>

Data protection guidelines required that employees’ informed consent be obtained before they could be contacted by our interviewing team. Therefore, depending on the employers’ resources, one of two approaches to employee recruitment was adopted:

- employers provided the research team with an anonymised list of all employees within each of the four quota cells shown in Table A.7, and the research team randomly chose employees to give a good mix of demographics. The employer then sent an invitation to participate in the research to these employees. This was the preferred approach because there could be no bias on the part of the employer in selecting which employees would participate;

- if the preferred approach was impossible for the employer, employers themselves selected a small number of employees who fell into each of the four quota cells, aiming for a good mix in terms of age, sex and income, and sent invitation letters to these employees.
Employees were allowed seven days after receipt of the invitation letters, which offered £15 to those who were interviewed, to contact the research team if they did not wish to be contacted for an interview.

The interviewing team contacted the employees who had not opted out, telephoning them at their workplace, to confirm receipt of the invitation and to arrange a convenient time for a 25-minute telephone interview to take place outside the workplace. All employee interviews were conducted out of work time and away from the workplace to ensure that there was no risk of bias arising from an employee answering questions in a workplace that might have offered little privacy.

Table A.8 shows how many employees in each of the four sub-groups were interviewed for each case study. Eight employee interviews were sought for most cases, but in some cases the employers were unable, for various reasons, to distribute invitations to employees.

Table A.8  Total number of employee interviews carried out in each organisation

<table>
<thead>
<tr>
<th></th>
<th>Eligible before switch; joined after</th>
<th>Became eligible and joined after switch</th>
<th>Eligible before switch; never became member</th>
<th>Became eligible after switch; never became member</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AE1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>AE2</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>AE3</td>
<td>-</td>
<td>6</td>
<td>3</td>
<td>4</td>
<td>13</td>
</tr>
<tr>
<td>AE4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>SLJ1</td>
<td>2</td>
<td>-</td>
<td>3</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>SLJ2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>SLJ3</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>SLJ4</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>SLJ5</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>AD1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>AD2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
</tbody>
</table>

The full topic guide for employees is available on the DWP website\(^{22}\). The areas covered included:

- overall opinions about the level of pension provision offered by the workplace scheme;
- information that members and non-members received about the opportunity to join the scheme, before and after the change;

employees’ experiences of the communications they received about joining the
scheme;

the processes employees went through in making their decisions about joining
the scheme;

whether members subsequently changed their employee contribution levels;

whether non-members subsequently had the opportunity to join, or considered
doing so;

whether employees felt that their level of pension provision would be adequate
for their retirement, and how they planned to respond to this situation.

A.3.4 Analysis of administrative payroll data (September 04 –
June 05)

In initiating the study, the DWP assumed that it would be possible to collect from
participating employers detailed, anonymous payroll data at individual employee-
level for members and non-members of the pension scheme, at two points in time:

• immediately before the change in enrolment;

• after the change in enrolment.

This would have made it possible to measure the impact of the change on the
participation rate, contribution levels and membership profile of employees. The
data that were requested from employers is described in Table A.9.

Table A.9 Employee-level data requested on all eligible to join the
scheme, before and after the change in enrolment

<table>
<thead>
<tr>
<th>Type of information required</th>
</tr>
</thead>
<tbody>
<tr>
<td>For each eligible employee:</td>
</tr>
<tr>
<td>Employment start date</td>
</tr>
<tr>
<td>Date of birth</td>
</tr>
<tr>
<td>Gender</td>
</tr>
<tr>
<td>Annual salary</td>
</tr>
<tr>
<td>Whether a pension scheme member or not</td>
</tr>
<tr>
<td>For scheme members only:</td>
</tr>
<tr>
<td>Date of joining scheme</td>
</tr>
<tr>
<td>Employee contribution</td>
</tr>
</tbody>
</table>

It was recognised that providers and employers would have their own systems for
capturing and handling administrative data, and would be unlikely to have much
flexibility to add variables or manipulate existing data to suit research purposes that
did not coincide with their business needs. The aim from the outset was to work with
employers to collect as much administrative data as possible.
To allow employers as much flexibility as possible, two options were suggested to them if:

- employee-level data could be provided, prepare two Excel (or similar) spreadsheets containing each of the variables in Table A.9 for each employee eligible to join the scheme – a before file and an after file – without including any information that could identify employees;

- employee-level data could not be provided, provide aggregated data.

Where employers said that the process of supplying administrative data was too onerous, the research team offered to send one of its members to undertake the task, but none of the employers that were having difficulties accepted the offer.

Section A.6 summarises the limitations in the administrative data that could be collected.

### A.3.5 Public service case studies (January 05 – March 05)

Two public service organisations, one National Health Service (NHS) Trust and one Local Authority, were studied as examples of schemes that had operated Automatic Enrolment for considerable periods of time. These schemes were past any teething troubles that transition to a new joining technique might cause.

Public service schemes were included among the case studies to shed light on three questions.

- How do participation rates and membership profiles behave over the long-term in schemes using Automatic Enrolment?

- Why do some employees opt-out of Automatic Enrolment schemes even when the benefits on offer are advantageous?

- Can Automatic Enrolment be communicated to employees and supported in other ways so it remains an effective, acceptable joining technique over the longer-term?

The approach applied to studying these schemes was the same, in principal, as that used to study private sector schemes, and the methodology described in Sections A.3.1 through A.3.4 was applied to the two public service schemes, with only the following modifications:

- since no intermediaries (providers or IFAs) were involved in operating these schemes, the DWP and the research team approached the employer directly to determine if participation in the study would be possible;

- two interviews with employers were conducted in the Local Authority scheme, and one in the NHS scheme. No other interviews with scheme administrators took place;
• interviews were conducted with eight employees eligible to join each of the schemes, four with members and four with non-members. Quotas based on when the employee became eligible to join were not applied since the enrolment technique had not changed as it had in the private sector schemes;

• similarly, historical data on members and non-members were not required to provide pre-change benchmarks. Only recent administrative data were requested.

A.3.6 Summary of data collected from all employers

Table A.10 summarises the sources of information collected in the course of preparing the 13 case studies.

Table A.10  Summary of all interviews conducted and administrative data collected across 13 case studies

<table>
<thead>
<tr>
<th>Employer</th>
<th>Number of interviews</th>
<th>Administrative data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employer Provider IFA Employee</td>
<td></td>
</tr>
<tr>
<td>AE1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>AE2</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>AE3</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>AE4</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>SLJ1</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>SLJ2</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>SLJ3</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>SLJ4</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>SLJ5</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>AD1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>AD2</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>PS1</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>PS2</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

A.4 Barriers to change: the rejecters (January 05 – April 05)

Telephone depth interviews were conducted with employers that had considered but rejected Automatic Enrolment. Private sector DC schemes that paid an employer contribution and had considered but rejected Automatic Enrolment were identified by screening a sample of 950 businesses. Fourteen employers agreed to take part in the study, out of 57 that were identified as being eligible to do so. The screening and interviewing processes are described in Sections A.4.1 and A.4.2.

The process of identifying rejecters was a purposive recruitment exercise, not a measurement exercise. Although six per cent of the businesses screened qualified as rejecters, the sample used was not controlled to ensure that it was representative of
all UK businesses. Although a proportion of the sample was sourced at random using business directories, other directories of employers known to be operating DC schemes were also used where possible. In addition, referrals were occasionally used, if one employer knew of another that might have considered Automatic Enrolment. Consequently it is not reasonable to assume that six per cent of all UK businesses with more than four employees have considered but rejected Automatic Enrolment.

**A.4.1 Screening for employers that considered but rejected Automatic Enrolment (January 05 – March 05)**

The providers with whom the DWP and the research team worked to identify schemes that were candidates for case studies were unable to identify any employers that had considered but rejected Automatic Enrolment. Therefore, a process of telephone screening was used to identify such organisations. A sample of 950 UK businesses was screened to identify those that met a hierarchy of criteria:

- company had at least five employees;
- company’s main pension scheme was open;
- employer made some level of contribution to members’ pensions;
- organisation did not operate Automatic Enrolment, but at some stage in the previous two years investigated changes to the pension scheme’s enrolment procedures and actively considered Automatic Enrolment;
- company rejected Automatic Enrolment after considering it, or adopted Automatic Enrolment but switched away from using it within the past two years.

The screening process was undertaken by our quantitative research partners, Critical Research. Care was taken during screening to define the term Automatic Enrolment so that respondents understood its meaning correctly and could answer questions accurately about the enrolment techniques they used and those they had considered. This successfully minimised the risk of misrecruitment.

Table A.11 summarises the results of this screening process.

**Table A.11 Outcome of screening to identify rejecters**

<table>
<thead>
<tr>
<th>Absolute number of companies</th>
<th>Company size: number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Companies screened</td>
<td>950</td>
</tr>
<tr>
<td>Main open scheme is DC</td>
<td>694</td>
</tr>
<tr>
<td>Employer makes a contribution</td>
<td>550</td>
</tr>
<tr>
<td>Employer considered but rejected Automatic Enrolment</td>
<td>57</td>
</tr>
<tr>
<td>Employer agreed to take part</td>
<td>14</td>
</tr>
</tbody>
</table>
A.4.2 Qualitative interviews with rejecters (February 05 – April 05)

After screening, the contact details of employers who agreed to take part were passed on to the executive interviewing team at Consensus Global. Interviews were arranged and conducted by phone. They usually lasted about 25 minutes.

Fourteen telephone depth interviews were conducted in total, one with each scheme’s main internal administrator (Pensions, Payroll, HR or Finance Directors).

The topics covered in the interviews were:

- overall opinions about the level of pension provision offered by the employer;
- reasons for considering Automatic Enrolment initially;
- who was involved in the process of considering and deciding not to adopt Automatic Enrolment;
- what were the reasons or expected difficulties that eventually caused Automatic Enrolment to be rejected, or abandoned if it had been used;
- would the organisation consider Automatic Enrolment again in the future, or under any different circumstances; why, or why not.

A.5 Focus groups with IFAs (March 05)

Two focus groups with IFAs were conducted to explore their attitudes to the enrolment process and the joining techniques. IFAs were recruited by Consensus Global, using their large database of IFAs built up over seven years of conducting semi-annual surveys in this sector. IFAs were not recruited from organisations known to be involved with any of the case studied schemes, and each of the 14 participating IFAs came from a different organisation.

IFAs were included only if they had worked with companies that had considered or used one of the tested enrolment techniques. Since the groups were conducted on a confidential basis, participating organisations cannot be named here.

The groups lasted two hours and took place in city centre focus group facilities in:

- Leeds, on the evening of 9 March 2005, with eight IFAs;
- London, on the evening of 10 March 2005 with six IFAs.

The groups were moderated by the RS Consulting Director responsible for this study, and were audio recorded for analysis.

The broad topic areas covered in both groups included:

- how important IFAs think enrolment techniques are, as part of the overall process of setting up and running pension schemes in the workplace;
- attitudes to the traditional opt-in process and its impact on employees’ decision-making about joining and on participation rates;
• awareness among IFAs of the techniques being studied, and their assessment of awareness among employers and providers;
• IFAs opinions of each of the techniques, their advantages and disadvantages; and how likely IFAs would be to recommend them;
• direct experience of the enrolment techniques with employers, and their reasons for considering them, and adopting them;
• experience of schemes rejecting the techniques, and barriers to their being adopted by employers;
• possible consequences for IFAs if schemes adopt the techniques.

A.6 Evaluation of the administrative data collection aspects of the study

The focus in this section is on understanding the difficulties that employers experienced in supplying administrative data – mainly the private sector employers that provided 11 of the 13 case studies.

A.6.1 Problems encountered in provision of employee-level data administrative data

The administrative data requested, even if ostensibly straightforward, were often extremely difficult for employers to extract. No employers had a structure in place that allowed them to run a simple query on their employee data, based on the study’s specifications. All required a degree of manual manipulation of their data, and in a number of cases the employer had to extract and integrate data from different systems. This was particularly the case in companies with several operating units or subsidiaries where multiple payrolls and the absence of a central payroll repository often forced the study to accept data on a subset of all employees, i.e. those on one of several payrolls.

In several organisations, the payroll department was very busy during certain parts of the month. In some cases, the request for administrative data in the first quarter of 2005 coincided with preparations for the end of the company’s financial year, and in all it came as the tax year was about to end in early April.

As a consequence, employers, who received no financial incentive for participating, often could not justify spending the time and effort needed to extract the data requested. Where problems or questions about providing the data arose, employers would occasionally take several weeks to respond to the guidance they were offered. Although employers were co-operative throughout, this did delay the process.

Table A.12 summarises six problems that were encountered in data collection, and the effects the problems had on the analysis of administrative data, and ultimately
on the results obtained. These six problems have been grouped according to the severity of the issues and the impact each had on the analysis.

Table A.12  Problems encountered in the administrative data collection process

<table>
<thead>
<tr>
<th>Problems</th>
<th>Explanation and summary of implications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Severe issues</strong></td>
<td></td>
</tr>
<tr>
<td>Missing variables</td>
<td>Some employers did not hold certain variables, e.g. date of joining scheme, in any format, for any employees. This prevented analysis involving that particular variable for the scheme and in comparisons with other schemes.</td>
</tr>
<tr>
<td>Missing subsets of employees</td>
<td>Some employers only held data for particular subsets of employees, e.g. data were only held for current members. This meant that the profiles of members and non-members, before and after, could not be compared.</td>
</tr>
<tr>
<td>Missing company divisions</td>
<td>Different divisions within large companies frequently held administrative data in disparate and incompatible formats. In other cases, some but not all divisions were able and willing to provide data. Partial data for a subset of a workforce were preferable to no data, but were, despite caveats, likely to be unrepresentative of all employees.</td>
</tr>
<tr>
<td><strong>Moderate issues</strong></td>
<td></td>
</tr>
<tr>
<td>Data inaccuracies</td>
<td>Simple inaccuracies – for example data entry mistakes by the employer’s payroll department – were a common and unpredictable problem. Where these could be identified, they could usually be corrected, but in some cases, suspect data that could not be verified or corrected were excluded.</td>
</tr>
<tr>
<td><strong>Other issues</strong></td>
<td></td>
</tr>
<tr>
<td>Unexplained ‘holes’ in the data</td>
<td>Occasionally, employers were unable to extract certain pieces of information for small groups of employees, e.g. salary information for temporary staff. Typically, this was a quirk of that employer’s payroll data mechanisms, but where it occurred, it could prevent analysis of a particular variable.</td>
</tr>
<tr>
<td>Inconsistent data formats</td>
<td>In some cases, employers stored data in different formats before and after the change. In most but not all cases, this could be reconciled, given some manipulation of the data.</td>
</tr>
</tbody>
</table>

A.7  Implications of the administrative data collection process for future research

Ultimately, many employers – far more than initially anticipated – did not hold, or were unable to assemble and share, significant amounts of the payroll data that the study required. Different employers were able to provide data in varying formats and with varying degrees of internal consistency and completeness. No employer could produce all of the administrative data in the format required. Two could provide none at all. Some could produce data only for members, and not non-members. Some could provide data before the switch only, while others could provide it only
after the switch. In some cases, different items of information held separately by the employer and the provider could be combined to produce some of the data that were needed.

If research of this kind, involving the collection of administrative data, is undertaken again, the following five conclusions might usefully be considered as studies are planned.

**A.7.1 Lessons from the process of collecting eligibility data**

The process of collecting eligibility data, though time-consuming in many cases, was successful. Providers generally held information on 11 of the 12 eligibility variables shown in Table A.5. The exception was item 12 – total number of employees eligible for the scheme – which was not held by the provider for approximately half of the cases, but could usually be supplied by the employer.

It is true that many employers had to be excluded from the study because eligibility could not be established, but these were almost all from the same provider, who had replaced these schemes’ previous provider without acquiring any historical data.

The recruitment criteria themselves considerably restricted the universe of employers that were eligible for study. Over and above this, however, the demands placed on employers, in particular the need to provide extensive administrative data, led many eligible employers to refuse to participate.

**A.7.2 Ability, not willingness, to provide required data was the main problem**

Obtaining scheme-level data from providers to establish the eligibility of schemes was not a major problem; relatively few candidates were eliminated because their providers could not produce the information needed to determine if the scheme was eligible for study.

Employers that were eligible for study were generally willing, in principle, to provide the detailed, anonymised employee-level data required to assess the impact of a change in joining technique. As a rule, however, they could not prioritise what proved to be a difficult, time-consuming and sometimes futile process of trying to interrogate, quality control, reprocess, integrate and otherwise manage their data – some of which, in each case studied, were missing. The recordkeeping systems that these employers had were suited to their business needs, but the information required by this study was not what their systems were designed to produce. It was not business-critical for employers to use their resources to meet research needs, and no compensation was offered to encourage them to put effort into doing so.
A.7.3  Simplifying the information required was not a solution

Reducing the amount or simplifying the nature of the employee-level information requested from employers was considered, but the impact assessment objectives of the study could not have been met with more basic data.

Furthermore, there were no common denominators of data that all employers held to which it might have been possible to retreat. Neither was there a clear pattern in the types of companies that held much of what was required, versus other types that held only a little of what was needed. The lack of commonality in what was held, and how it was held, was at the heart of the problem, although all the private sector employers studied were medium and large organisations.

A.7.4  Effective incentives to get better data

Voluntary provision of voluminous data sets that are difficult to produce would be encouraged, and their quality and timeliness improved, if they could be obtained on contractual, fee-for-service terms. This would not produce perfect data sets in all cases, but persuasion without a fee was not very effective in this project and seems unlikely to be so in future.

The data needed to monitor the impact of changes in enrolment techniques were not widely available or easily comparable in the schemes studied. Standardisation of measures and recordkeeping would be required for reliable, efficient monitoring to take place.

A.7.5  Better data: the key items

This study’s requirements for scheme-level eligibility data were met fairly easily by most schemes’ providers: these data included each scheme’s default minimum employee contribution, number of employees eligible to join the pension scheme, and the total number of members of the scheme. Data used to establish eligibility for this study could be incorporated into a recordkeeping regime with relatively little additional burden on providers, it would appear.

In addition to scheme-level information along the lines of the eligibility data needed for this study, the three most critical items of information to have at employee level would appear to be:

- the number of employees becoming eligible to join the pension scheme in a given reporting period, e.g. the past six or 12 months;
- the number of newly-eligible employees who joined the scheme during this period;
- the number of members who made an employee contribution in excess of a minimum or the default level, if any, or those making any employee contribution when a scheme did not require employees to contribute.
These three items of information, based on employee-level data, would require effort for most, if not all, employers to produce. They would not reveal all the effects joining techniques might have, but being able to access these data readily, in a standard format, would go a long way to answering the most important questions: do the techniques work to increase membership and to increase contribution levels?
References


