

Likely treatment of different types of worker under the workplace pension reforms: Qualitative research with employers

by Andrew Wood, Sara Spinks, Jason Leong
and Kate Reeve

Department for Work and Pensions

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Andrew Wood, Sara Spinks, Jason Leong and Kate Reeve

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

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Abbreviations

DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
GPP	Group Personal Pension
IFA	Independent Financial Adviser
NDPB	Non-Departmental Public Body
NEST	National Employment Savings Trust
PADA	Personal Accounts Delivery Authority
SHP	Stakeholder Pension
SIPP	Self-Invested Personal Pension
TPR	The Pensions Regulator
WPP	Workplace Personal Pension

Glossary of terms

Automatic enrolment	Pension scheme enrolment technique whereby an employer automatically enrolls eligible workers in the workplace pension scheme without the employees having to make a separate application for membership. Employees can opt out of the scheme if they prefer.
Defined Benefit (DB) scheme	An occupational pension scheme that provides benefits based on a formula involving how much a person is paid at retirement (or how much a person has been paid on average during their membership of the scheme) and the length of time they have been in the pension scheme.
Defined Contribution (DC) scheme	An occupational or personal pension 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.
Earnings	In the context of the workplace pension reforms this refers to all sums payable to an employee in connection with the person's employment, including salary, commission, bonuses, overtime, sick pay, maternity pay and paternity pay.
Eligible worker	In the context of the workplace pension reforms this refers to those workers that will be automatically enrolled into a qualifying workplace pension scheme . This group includes employees aged between 22 and State Pension age , earning more than £5,035 a year (in 2006/07 earnings terms).

Group Personal Pension (GPP)	An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a personal pension scheme on a grouped basis. This is not a single scheme; merely a collecting agreement.
Group Self-Invested Personal Pension (group SIPP)	An arrangement made for the employees of a particular employer, or for a group of self-employed individuals, to participate in a SIPP scheme on a grouped basis.
Group Stakeholder Pension (group SHP)	A personal pension that must meet certain legislative conditions, including annual management charges of no more than 1.5 per cent. Employers with five or more employees and who do not already offer a pension scheme must currently offer a group SHP scheme. These employers do not have to contribute to a group SHP but they must allow employees access to the scheme. SHPs will cease to be mandatory after the workplace pension reforms are introduced.
Independent Financial Adviser (IFA)	An adviser, or firm of advisers, that is in a position to review all the available products and companies in the market as the basis for recommendations to clients. All IFAs are regulated directly by the Financial Services Authority.
Member	A person who has joined a pension scheme and who is entitled to benefits under it.
Minimum employee contribution	In the context of the workplace pension reforms this refers to the minimum amount that all eligible workers' will need to pay into a DC workplace pension scheme if they do not opt out, unless the employer chooses to contribute more than the minimum. It will be phased in from 2012 to 2017, after which it will remain at four per cent of qualifying earnings .

Minimum employer contribution	In the context of the workplace pension reforms this refers to the minimum amount that all qualifying employers will be required to contribute to eligible workers' DC workplace pension scheme . It will be phased in from 2012 to 2017, after which it will remain at three per cent of qualifying earnings . DB and some hybrid schemes must meet a test of overall scheme quality; and DC and some hybrid schemes require a minimum contribution equivalent to eight per cent of qualifying earnings, including the three per cent employer contribution.
The National Employment Savings Trust (NEST)	An occupational pension scheme, formerly known as Personal Accounts, established by legislation. NEST will be aimed at eligible workers on moderate to low incomes, who do not have access to a good-quality workplace pension .
Non-Departmental Public Body (NDPB)	A public body set up by government to carry out work at arm's length from Ministers, although Ministers are ultimately responsible to Parliament for the activities of the bodies sponsored by their department.
Occupational pension scheme	A workplace pension arrangement that is set up by an employer to provide income in retirement for its employees.
Pensions Act 2007	The Act introduced to Parliament in November 2006 that put into law reforms to the state pensions system, covering the Basic State Pension and the State Second Pension , and changed some of the qualifying conditions for both. In the context of the workplace pension reforms it created the Personal Accounts Delivery Authority to advise on proposals for a new pension scheme.

Pensions Act 2008	The Act introduced to Parliament in December 2007 to take forward measures aimed at encouraging greater private saving for retirement from 2012. It proposes that a system of automatic enrolment into a qualifying pension scheme meeting the quality requirement, which will provide eligible workers who are not currently enrolled in a workplace pension with an opportunity to save for retirement.
The Pensions Regulator (TPR)	The UK regulator of workplace pensions . The Pensions Act 2008 introduced new duties on employers and gives TPR a new objective to maximise compliance with the duties and ensure safeguards that protect employees are adhered to.
Personal Accounts Delivery Authority (PADA)	An NDPB established by the 2007 Pensions Act. Its remit is to provide advice and assistance to the Secretary of State on the operational impact of policy choices and to develop the infrastructure of NEST.
Personal pension	A DC pension scheme purchased by an individual from a pension provider such as a bank, life assurance company or building society. It is owned entirely by the individual, allowing them to continue to contribute to it if they move jobs. It is also known as a contract-based pension . A personal pension purchased through the employer is known as a workplace personal pension ; one purchased individually is known as an individual personal pension .
Provider	An organisation, usually a bank, life assurance company or building society, that sets up and administers a pension scheme on behalf of an individual or trust.

Qualifying earnings	In the context of the workplace pension reforms this refers to the part of an individual's earnings on which contributions into a qualifying workplace pension scheme will be made. Contributions will be made on a band of earnings between around £5,035 and £33,500 a year at 2006/07 earnings levels, and will be increased in line with earnings .
Qualifying employer	In the context of the workplace pension reforms this refers to employers that employ any eligible employees.
Qualifying workplace pension	In the context of the workplace pension reforms all qualifying employers must offer their eligible employees a qualifying workplace pension. This is a scheme that must fulfil the core requirements of automatic enrolment and the quality criteria set out in the Pensions Act 2008.
Self-Invested Personal Pension (SIPP)	A personal pension scheme under which the member has some freedom to control how some or all of their contributions are invested (as opposed to simply choosing a fund or funds). The requirements governing SIPPs are set out in the Personal Pension Schemes (Restriction on Discretion to Approve) (Permitted Investments) Regulations 2001.
State Pension age	The state retirement pension is currently paid to people who reach the State Pension age of 65 for men and 60 for women and who fulfil the National Insurance contributions conditions. Under section 126 of the Pensions Act 1995, State Pension age will increase to 65 for women from 2010 to 2020. It will then increase from 65 to 68 for men and women by 2046.

Trustee	An individual or company appointed to hold assets for the beneficiaries of a trust-based pension scheme, in accordance with the provisions of the trust instrument – the legal document that sets up, governs or amends the scheme – and general provisions of trust law.
Workplace pension	Any pension scheme provided as part of an arrangement made for the employees of a particular employer.
Workplace pension reforms	The reforms introduced as part of the Pensions Act 2008 : the measures in the Act include a duty on employers to automatically enrol all eligible workers into qualifying workplace pension provision from 2012 to improve pension saving for those who participate. DB and some hybrid schemes must meet a test of overall scheme quality; and DC schemes and some hybrid schemes require a minimum contribution equivalent to eight per cent of qualifying earnings.
Workplace personal pension (WPP)	A personal pension scheme that is purchased as part of an arrangement made for the employees of a particular employer. In this respect it contrasts with an individual personal pension . WPPs include GPPs , group SHPs and group SIPPs .

Summary

The research study was designed to consult with employers across all sizes and industry sectors about their likely treatment of different types of worker in response to the requirements introduced by the workplace pension reforms. The research will be used to inform the development and implementation of the reforms.

Background

The Pensions Act 2008 sets out a series of measures aimed at encouraging wider participation in private pension saving. The aims of these reforms are to overcome the decision-making inertia that currently characterises many individuals' attitudes to pension saving and to make it easier for people to save for their retirement.

The measures in the Act include a duty on employers to automatically enrol all eligible workers into qualifying workplace pension provision from 2012 and to provide a minimum contribution towards the pension saving for those individuals who participate.

The details of how the changes will be enacted were set out in regulations that were laid in January 2010.

Scope of the research

The study was qualitative in nature, and consisted of individual depth interviews with 62 private sector employers, each lasting one hour. The interviews took place across a range of sizes of employer, industry sector and geographic location throughout Great Britain, including employers with a range of different levels of employee pension provision.

Interviews were conducted from early October to mid-November 2009 with the senior individual within each company best placed to discuss pension provision for employees.

Key findings

Background: current workplace pension provision

While all of the employers in this research were in agreement that the responsibility for saving for one's retirement should fall to some extent on the individual concerned, there was some disagreement as to how much responsibility the employer should have.

Most of the employers who felt it should solely be the individual's responsibility to save currently offered no employer pension contribution. These employers tended to be in industries that generally paid low wages, and they also tended to fall disproportionately within the smaller size categories, especially those in the one to four employee category, although some were larger. Often they had a relatively high turnover of staff, or the nature of the work was seasonal or non-permanent. These employers tended to insist that pension provision for their employees would be unaffordable. Similarly, they felt that their employees, on a modest wage, would be far less interested in saving for retirement than simply providing for themselves from day to day.

Employers that saw pension provision as the responsibility of both employee and employer tended to be larger in size, with many employees earning higher wages or salaries than those who did not feel the employer should take responsibility. These employers were more likely to offer workplace pension provision to their staff and make contributions to these schemes. Generally they recognised benefits to themselves as employers in offering employee pension contributions, in terms of recruitment and retention, staff morale and productivity.

Employers' likely treatment of different types of worker after 2012 also tended to be driven by how generous their current provision was.

Likely treatment of workers currently receiving less than three per cent or no contribution

Employers with no current pension provision in place were generally small companies of one to four employees. They did not generally believe that employees would value a workplace pension, as their staff were often lower paid, non-permanent or seasonal, or had their own personal pension arrangements.

Most of these employers said that after the implementation of the reforms they were likely to choose one single qualifying workplace pension scheme in which to enrol all of their eligible employees. This was because they considered one scheme to be easier to set up and administer than multiple schemes. As these employers generally had few employees, they felt that the additional time needed to select and administer multiple schemes would outweigh any potential benefits for employees.

In most cases these employers expected to pay the minimum three per cent employer contribution required under the reforms to all staff, and no more, believing that employer contributions of more than three per cent would be unaffordable.

Employers that were making a scheme available to employees, but were offering most of them either no contribution, or less than three per cent, typically expected to enrol newly-eligible employees into the existing pension scheme, rather than set up a new one. These schemes, usually either group stakeholder pensions or group personal pensions, had already been set up and so the employers were familiar with the administration surrounding them. They typically expected only to be able to offer this group of employees the minimum contribution of three per cent, in order to comply with the requirements, while minimising their contribution costs.

The following staff were seen as most likely to receive only the minimum three per cent employer contribution required under the reforms:

- **Staff within a probationary period:** Employers often did not wish to offer higher contributions to probationary staff because the company and the employee had yet to determine mutual suitability for the role.
- **Lower-paid staff:** Employers often justified not offering higher contributions to this group on the basis of cost: these lower-paid staff often formed a significant proportion of the overall workforce, and the company could not afford to make higher contributions on such a large scale.
- **Non-permanent and seasonal workers, including freelance staff:** Many employers felt it would not be good business practice to offer non-permanent or seasonal staff higher employer contributions because there had been no commitment from them to continued employment. In some cases, this also applied to non-UK nationals working in the UK on a short-term basis.

Likely treatment of workers currently receiving a contribution of three per cent or more

Employers that already offered most employees an employer contribution of at least three per cent were likely to face the lowest impact overall in terms of changes to their employer contributions. The main effect of the reforms for this group was expected to be the increase in membership levels brought about by automatic enrolment, as well as bringing any remaining staff not currently receiving three per cent up to the minimum.

These employers generally expected to maintain any employer contributions of greater than three per cent currently paid to employees, as they wanted these more generous contributions to continue to serve as a recruitment and retention tool among permanent employees. Indeed, a small minority of employers felt employer contributions might even increase at their company, to reflect the fact that all employers would now be offering employer contributions, and so to more effectively differentiate their company's pension scheme from other employers'.

The effects of the reforms on salary sacrifice schemes and flexible benefits packages

A minority of employers currently offered pension benefits as part of a salary sacrifice scheme, or more rarely, pension benefits as part of a flexible benefits package. Such employers were generally unaware of how the reforms might affect these.

In rare cases employers thought that salary sacrifice schemes might need to be evaluated to prevent employees from accepting lower employer contributions than the minimum permitted under the reforms, however most employers were uncertain of this. They typically acknowledged that they had not looked at the issue in detail.

Likely consideration of NEST (National Employment Savings Trust)

All of the participants in this survey were shown key information about NEST, which at the time of interviewing was called the personal accounts scheme. To help the government understand employers' possible reactions to this brand new scheme, employers in this study were asked whether they would consider offering it to any of their own employees (in particular, those not currently covered by pension provision, which is the group at whom NEST is primarily targeted).

Employers in small companies with no pension scheme in place, particularly within industries with a high staff turnover such as retail and catering, said that they would be likely to consider enrolling employees into NEST. They felt that they would be looking for a simple, low-cost solution to pension provision, and viewed these workers to be the target at which NEST is aimed. Although most employers with pension provision already in place stated that they would prefer to use or adapt their current scheme, many did state that they would consider NEST if this approach was not feasible, or if they were advised to do so.

The employers likely to consider NEST as a workplace pension typically perceived it to be a simple, ready-made, low-cost solution that would be suitable for all staff that became eligible for workplace pension provision under the reforms. They were therefore generally positive about the idea of NEST in principle, and typically agreed that a scheme established by the government should ensure compliance with the reforms, and come to be recognised as a good way of saving by both employers and employees.

The employers interviewed generally felt that NEST would be most appropriate for their junior, or lower-paid staff. Many also felt that it would be an appropriate choice for staff that were likely only to stay at the company for a relatively short period of time, as the scheme was often perceived to be easy to administer for the employer, and a portable option for the employee.

Factors that may affect employer contribution levels for different types of worker

Employers were typically unsure as to the level of contribution that they would be able to pay different types of worker after the implementation of the reforms. This depended on how costly the reforms would be to them as an employer, which was difficult to predict, as it depended on two major factors:

- The direct and indirect administrative costs of the reforms, associated with selecting and setting up a scheme, ongoing communications to staff, and the processing of opt-outs and opt-ins. This applied particularly to employers who had significant numbers of part-time or temporary staff, and who were concerned about the administrative burden of having to manage and process large numbers of opt-outs each year, placing a considerable administrative burden on them.
- The costs of the additional pension contributions that they would have to make to newly-eligible employees. They typically recognised that this would be strongly influenced by the proportion of the newly-eligible employees that decided to opt out. But as they were unable to predict this figure, employers could not generally predict the financial effect that the reforms might have overall. Employers differed widely in terms of their expectations as to what proportion of employees might opt out, providing estimates of between zero and 90 per cent of all employees. All admitted that they were generally unsure as to the levels that they could expect.

Changes to existing employer contributions

Most employers agreed they would not ideally want to 'level down' contributions: in other words, reduce the level of contribution currently paid to members receiving more than the minimum three per cent, in order to offset additional contribution costs from new members.

Some employers stated that they would only do this if it was prompted by a real financial need. The most likely circumstance where it was perceived this could arise was if most of the newly-eligible staff were to join the pension scheme, with very few choosing to opt out. In this case, some employers feared they might not be able to afford the increase in contributions.

Many employers, however, expected to maintain current contribution levels for staff in existing schemes, whatever the level of opt-out, even despite any increase in membership. This was primarily because:

- reducing current contribution levels would have a negative effect on staff morale;
- they would be taking existing benefits away, which might constitute a breach of the employee contract;

- it might also suggest that the company is not performing well financially;
- maintaining levels of contribution over three per cent, where offered, might not only help to retain staff but also attract new recruits.

Many employers were reluctant to even consider which groups of staff would face levelling down, if it were to happen. Some did point out however that lowering contributions paid to new joiners might be the least problematic approach, as this would not mean any changes to contract terms for existing employees (this is not strictly classified as levelling-down, although as new staff replace old staff the effect will be similar).

Some employers who currently offered tiered employer contributions depending on employee seniority suggested that more junior staff receiving lower employer contributions may continue to receive these lower percentages, even when they reached a more senior level. This meant that although contributions for these employees would not increase with seniority, they would not be taking away any contributions already received.

1 Introduction

This report provides the findings from a study conducted by RS Consulting on behalf of the Department for Work and Pensions (DWP), to consult with employers about their likely treatment of different types of workers in response to the requirements to be introduced by the workplace pension reforms. The research will be used to inform the development and implementation of the reforms.

This chapter details the policy background to the study, outlining the reforms as detailed in the Pensions Act 2008. It also contains the research objectives and methodology.

1.1 Policy background: the Pensions Act 2008

Current estimates suggest that approximately seven million people are not saving enough to deliver the pension income they are likely to want, or expect, in retirement.¹ There are a number of barriers that prevent people from making a decision to start saving, and these affect moderate to low earners in particular²:

- many have a poor understanding of pensions and the need to save;
- inertia can prevent people from saving even when they are aware of the need to do so;
- pension providers do not actively target this group because they struggle to recoup high, upfront selling costs.³

The Pensions Act 2008 sets out a series of measures aimed at encouraging wider participation in workplace pension saving. The aims of these reforms are to overcome the decision-making inertia that currently characterises many individuals' attitudes to pension saving and to make it easier for people to save for their retirement.

¹ DWP (2009), *Workplace Pension Reform – Completing the Picture: Executive Summary – Policy Narrative*.

² DWP (2010), *Workplace Pension Reform Regulations – Impact Assessment*.

³ DWP(2007), *Pensions Bill – Impact Assessment*.

Certain details of the reforms had not been finalised at the time that the fieldwork for this study took place. However, the broad details of the requirements, as detailed below, were presented to participants for the purposes of this research in October and November 2009.

From 2012, employers will be required to automatically enrol all eligible jobholders into a qualifying workplace pension.

Employers will be free to choose the qualifying workplace pension scheme or schemes they wish to use to discharge this new duty upon them. There are a range of schemes that employers may decide to use, including products already available on the market. Some companies already have an existing scheme in place and employers may use their existing scheme providing it meets minimum quality levels.

The reforms require defined benefit and some hybrid schemes to meet a test of overall scheme quality; and defined contribution schemes and some hybrid schemes require a minimum contribution equivalent to eight per cent of qualifying earnings, of which at least three per cent must come from the employer.

Eligible jobholders will be those who are working in Great Britain, aged at least 22, have not yet reached State Pension Age, have gross total earnings of more than £5,035 (in 2006/07 earnings terms) and are not currently enrolled into a qualifying workplace pension scheme. 'Total earnings' will include all sums payable to an individual in connection with their employment, including salary, commission, bonuses, overtime, sick pay, maternity pay and paternity pay.

Individuals will be able to opt out of pension saving after they have been automatically enrolled. There will be a duty on employers to periodically re-enrol workers who have opted out or stopped saving into a qualifying scheme. In addition, workers who are not eligible for automatic enrolment can opt into the employer's pension scheme should they want to. Therefore:

- workers aged under 22 years old or over State Pension Age but below age 75, earning over £5,035 per year will be able to opt into the scheme, and receive an employer contribution;
- workers earning under £5,035 will be able to opt into the scheme but will not be eligible for the minimum employer contribution.

As part of the reforms The Pensions Regulator will be given additional powers to ensure that employers comply with these new obligations.

The Pensions Act 2007 established the Personal Accounts Delivery Authority (PADA), as a time-limited non-departmental public body. PADA was given responsibility for providing assistance and advice to DWP on setting up the new pension scheme – NEST (National Employment Savings Trust). At the time the research was carried out, NEST was known as the personal accounts scheme and PADA had not confirmed the name of the scheme or begun to publicise NEST.

1.2 Research objectives

The research study was designed to consult with 62 employers across all sizes and industry sectors about their likely treatment of different types of worker in response to the requirements introduced by the workplace pension reforms.

There were two overarching objectives:

- To understand employers' likely behaviour after the implementation of the reforms: whether they might, for example, treat workers differently by segmenting them into different types of scheme (such as an occupational pension, GPP or NEST), or by offering different levels of employer contribution.
- What characteristics they are likely to use to segment their workers in this way, and why.

In addition to these two objectives, the research also aimed to find out:

- how far employers were likely to make changes to the pension provision they offered their employees, as a result of the reforms;
- how the pensions landscape in general might develop after the commencement date of the reforms.

1.3 Research methodology

The study was qualitative in nature, and consisted of face-to-face individual depth interviews with 62 private sector employers, each lasting one hour. They took place across a range of sizes of employer, industry sector and geographic location throughout Great Britain.

Previous research studies conducted by DWP had shown that many employers were unaware of the reforms, other than the basic details and broad concepts.⁴ This meant that, in conducting this research, many employers would be discussing and thinking about the detail of the reforms for the first time. A qualitative research approach was, therefore, considered to be the most effective way to achieve the objectives of this study. Conducting face-to-face depth interviews allowed us to introduce the reforms and explain the details in as much depth as was necessary. This meant that employers were able to give considered views that were based upon accurate information about the reforms legislation.

In addition, the in-depth, flexible nature of a qualitative interviewing process enabled us to fully understand the opinions and reasoning behind the comments made, to achieve a greater understanding of what employers thought, and why.

⁴ See, for example, Grant, C., Fitzpatrick, A., Sinclair, P. and Donovan, J.L. (2008). *Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Research Report No. 546.

Because the research was qualitative, rather than quantitative, its purpose was not to report on the number or percentage of individuals or organisations holding a particular view or having a particular set of experiences, nor to provide statistical data relating to the frequency of views across the UK. Instead, it explored the full range of opinions in depth.

The opinions and predictions given by participants represented a snapshot in time: they were the views held by participants in October and November 2009. These opinions may have changed since the fieldwork took place, and may change in the future.

For further detail on the profile of the participants and the geographical scope of the survey, see Appendix A.

1.3.1 The recruitment process

The recruitment team used the publicly-available sample source Dun and Bradstreet to randomly select employers. They used a standardised set of screening questions to ensure that the 62 employers reflected a spread of different company sizes (measured in terms of number of employees), industry sectors and geographic location.⁵

It was also important that we spoke to employers that currently offered a range of different types of pension provision to different staff. For the purposes of recruitment, three different levels of pension provision were identified:

- 1** an occupational pension;
- 2** a GPP or SHP with an employer contribution;
- 3** a pension with no contribution or no pension at all.

Where employers matched these criteria and were willing and able to give up the time to commit to a one-hour, face-to-face interview, the recruitment team sent them an introductory letter from DWP, a summary of the topics that would be discussed, an information leaflet about the workplace pension reforms and a written description of NEST, then referred to as the personal accounts scheme.⁶ Employers were offered a small financial incentive to compensate them for their time.

All participants were reassured that all information discussed in the interview would remain confidential to the RS Consulting research team and only be reported in aggregate form; it would not be attributed to specific individuals or organisations, either in presentations to DWP or in this final report.

⁵ This screener is available as Appendix B.1 of this report.

⁶ The materials sent to participants are available in Appendices B.2 to B.4 of this report. The DWP information leaflet given to participants was DWP (2009). *Workplace pensions are changing*.

1.3.2 Fieldwork

Individual depth interviews were conducted both by the RS Consulting management team and RS Consulting's specialist qualitative interviewers, all of whom had interviewed on several recent DWP qualitative studies on pensions and the reforms. After the discussion guide was finalised, a two-hour briefing session took place, to ensure that all of the interviewers were fully aware of the policy background and information objectives of the study.

The interviews themselves took place from early October to mid-November 2009 with the senior individual within each company best placed to discuss employees' pension provision: this was typically the owner of very small organisations, the Financial Director or Human Resources Director in small and medium-sized organisations and the Human Resources Director or Pensions Manager in large organisations.

A common discussion guide was used for all individual depth interviews.⁷ The discussion guide covered all questions relating to the objectives, including:

- the profile of staff currently employed;
- any staff pension provision offered at the time of fieldwork and how this varied between different types of staff;
- changes that the organisation might consider as a result of the reforms;
- whether after 2012 the organisation might consider offering different pension provision to different groups of staff, both in terms of scheme type and contribution, and exactly how this would work in practice.

⁷ The discussion guide is available in Appendix B.5 of this report.

2 Current pension provision and planning for the reforms

To understand the changes that employers are likely to make to their workplace pension provision in response to the reforms, it is important to understand their current pension provision.

To put their current provision into perspective, this chapter initially explores employers' overall attitudes towards providing a workplace pension. It then examines current levels of pension provision among the employers, and their reasons for offering, or not offering, a pension or contribution.

Finally, the chapter assesses how aware employers were of the workplace pension reforms, what they felt the reforms would mean for their business overall, and the extent of planning, if any, that employers had undertaken to date.

2.1 Overall employer attitudes to workplace pension provision

While all of the employers in this research were in agreement that the responsibility for saving for one's retirement should fall to some extent on the individual concerned, there was some disagreement as to how much responsibility the employer should have. Their attitude towards the role that the employer should play was linked to the level of provision they offered employees currently.

2.1.1 **Employers that saw saving as the individuals' sole responsibility**

Most of the employers who felt it should solely be the individual's responsibility to save currently offered no employer pension contribution. These employers tended to be in industries that generally paid low wages, and they also tended to fall disproportionately within the smaller size categories, especially those in the one

to four employee category, although some were larger. Often they had a relatively high turnover of staff, or the nature of the work was seasonal or non-permanent: for example, small hotels, sandwich shops and caterers. Some of the organisations that fell into this group had also been very recently established as companies.

Most of these employers, on giving consideration to the idea of offering their employees a pension contribution, insisted that such pension provision would be unaffordable: many claimed to be struggling financially in the context of the recession and so saw it as a low priority compared to keeping the business afloat. Similarly, they felt that their employees, on a modest wage, would be far less interested in saving for retirement than simply providing for themselves from day to day.

'It would be different if we employed people who wanted to make a career in the business, but they don't. They just do a year or two and then they're off.'

(1-4 employees, no pension scheme)

Organisations that had been very recently established also pointed out that getting the company onto a sound financial footing took precedence over offering a pension to employees: their revenue was not yet high enough to provide a company pension, and even if finances were available, employers felt that other priorities such as office renovations and providing pay increases to staff would be more important both to themselves as employers and to their employees.

Many of the smaller employers in this group noted that they would not be able to afford any dedicated pensions staff – indeed, many had no dedicated payroll staff – and so as employers they would have to take on any additional administrative role themselves, something which they often did not feel ready to do. For this reason, they felt that administering a workplace pension scheme would be particularly burdensome for small companies, especially with respect to enrolling new staff and un-enrolling staff that leave the company.

Occasionally, employers in this group pointed out that they thought a minority of staff that did wish to make their own contributions were happy to set up their own personal pension and make contributions themselves. They believed that this alleviated the need to establish an employer workplace pension scheme.

'Both employees contribute to a personal pension and they are not interested in contributing to another scheme.'

(1-4 employees, no pension scheme)

2.1.2 Employers that recognised a responsibility for the employer

Employers that saw pension provision as the responsibility of both employee and employer tended to be larger in size, with many employees earning higher wages or salaries than those who did not feel the employer should take responsibility. The

employers interviewed in this group were more likely to offer workplace pension provision to their staff and make contributions to these schemes. These employers generally saw it as their own responsibility to select a scheme that was suitable for their profile of employees, while stressing that it must remain the employee's ultimate decision to join or not.

Generally they recognised benefits to employees and to themselves as employers in offering employee pension contributions. The employee benefits were seen as straightforward and self-evident: adequate retirement funding and tax-effective saving. The benefits to the employer were seen as slightly less tangible, but value was seen in demonstrating to employees that the company cared about its staff. Primarily this could be felt in terms of recruitment and retention, staff morale and productivity, and, some felt, through an improved company image.

Many also felt that it was an employer duty to encourage membership of the pension scheme that was offered, by increasing employees' awareness of their options. For example, at the commencement of employment and when an employee became entitled to join the scheme, they sent out reminder e-mails to the employees who had not joined the scheme, and they displayed posters about the company's pension schemes in staff common areas. They were nevertheless keen to stress that the ultimate responsibility to join and to save lay with the individual.

'There is a facilitating role that we do, there is a sort of educational role, but it's not completely down to us as employers to make sure employees are saving for their future.'

(250-19,999 employees, pension scheme with at least three per cent employer contribution)

Some employers, although recognising they were in part responsible for an individual's pension provision, admitted that they refrained from overly promoting their pension schemes; they did not actively encourage membership and typically informed employees about the schemes only once. This was felt by some to benefit the company through reduced pension contribution costs.

'We don't promote the company pension scheme. We send out a letter once; we don't send out reminders. If they join, great. If they don't, it saves us money.'

(20,000 or more employees, pension scheme with at least three per cent employer contribution)

2.2 Current workplace pension provision for different types of worker

Through qualitative analysis of the current workplace provision for different types of worker, it was possible to classify the employers in this study into one of three groups:

- Employers that offered most employees no pension provision.
- Employers that offered most employees a pension scheme with employer contributions of less than three per cent – this group included employers offering stakeholder schemes where the employer did not make any contribution, and employers whose employees were entitled to receive a contribution of less than three per cent.
- Employers that offered most employees a pension scheme with employer contributions of at least three per cent.

It is important to note that these groups were based on the **eligibility** of most employees in the company to receive an employer contribution: irrespective of whether or not employees actually chose to join, and irrespective of any employee contribution required.

The level of three per cent was identified because this will be the minimum level of employer contribution required under the pension reforms. These categories are, therefore, useful, because they do not simply define employers' current level of provision (which will be examined in this section), but also the changes they are likely to need to make after the reforms are implemented (this will be examined in Chapter 3).

2.2.1 Employers that offered most employees no pension provision

In this study, employers with no pension scheme were generally those with one to four employees.⁸ In rare cases, employers with just over five employees fell into this category.

The most common reason given for these companies not offering a pension at all was the prohibitive cost of provision, as discussed in Section 2.1. In the current economic climate pension provision was simply not being considered as an option; many companies reported making a high proportion of their staff redundant, and reducing operating margins as a result of lowering prices to win business. There were some employers that did state they would like to offer their employees an employer contribution, but felt that they just could not afford to do this.

Sometimes, employers simply referred to the current regulations, pointing out that there was no legal obligation for employers with one to four employees to offer a pension, and so they did not.

⁸ Under current pensions regulations, these are the only organisations allowed not to offer a scheme: all organisations of five relevant employees or more must at least offer a group stakeholder pension to employees, even if no contribution is paid.

It was particularly common for employers of this size to state that they did not offer a workplace pension scheme because they did not believe their employees would value a pension. They felt that their employees placed greater priority on pay than pension provision.

'Our workforce is young and would rather spend their money in the pub.'

(1-4 employees, no pension scheme)

When employers were pressed on this issue, however, many admitted that this was simply an assumption, and that they had not asked them formally.

2.2.2 Employers that offered most employees employer contributions of less than three per cent

Employers in this category did offer employees a pension scheme, even if they did not make employer contributions to these. Employers that offered most workers employer contributions of between zero and three per cent were present across all company sizes. Generally, these employers employed large groups of staff for whom employers felt workplace pension provision was not a priority. These employers also considered it the employee's responsibility to make their own pension arrangements.

The most prevalent type of pension offered by this group was a stakeholder that attracted no employer contribution. In these cases, take-up tended to be low or non-existent.

There were some employers within this group that offered a small minority of staff more favourable pension provision, most commonly a group personal pension (GPP) which attracted an employer contribution. Such arrangements tended to be restricted to more senior employees. For example, branch managers of a retail store, as opposed to other branch employees who were offered no workplace pension contribution.

'A lot of our employees are on minimum wage and they're going to take a lot of convincing [to join a pension scheme].'

(20,000 or more employees, pension scheme with less than three per cent contribution)

2.2.3 Employers that offered most employees contributions of three per cent or more

Employers whose staff were entitled to an employer contribution of three per cent or more tended to have at least 250 employees, although some were smaller than this.

Most of these employers offered occupational defined contribution (DC) or GPP schemes, and mostly matched or slightly exceeded the contribution made by the employee, so long as a minimum employee contribution was paid. Some employers offered stakeholder schemes.

The need for employees to contribute to their workplace pension in order to attract employer contributions was said to limit membership in most companies. Some employers suggested that it was this reduced membership that made it affordable to offer the level of employer contribution they did. Only a minority of employers paid an unconditional employer contribution.

Some of the employers within this group also had legacy defined benefit (DB) schemes for senior members of staff or longer-serving employees, though only in very few cases were DB schemes still open to new members.

Employers offered most staff that qualified for a company's DC, GPP or stakeholder scheme employer contributions of three to five per cent, with a minority of employees being offered more than this, in some cases around ten per cent.

In general, the higher the contribution offered by an employer, the more positive they tended to be in terms of its value to them as a recruitment and retention tool. Some employers offered particular types of worker higher employer contributions, as it was felt they were more difficult to recruit and valuable to retain.

'A pension helps with recruitment and retention. In our business we need skilled people and the pension contribution we offer is a good reason for them to stay with the company. It ensures we keep the skills in-house.'

(50-249 employees, pension with at least three per cent contribution)

2.2.4 Criteria determining the level of employer contributions for different types of worker

Seniority and length of service were the criteria that most commonly determined whether an employee received contributions of around three per cent, or a percentage greater than this. Then there were certain types of worker who were far less likely to receive an employer contribution at all and certainly a contribution of at least three per cent:

- **Seniority of staff and salary**

Many employers offered the more senior and higher-salaried staff higher employer contributions than the junior and lower salaried staff. Employers often justified this on the basis of cost; the majority of employees who did not qualify for a workplace pension scheme or who received typically low employer contributions if at all, were lower-paid staff who formed a significant proportion of the overall workforce, and the company could not afford to make employer contributions on such a large scale. Moreover, it was felt that lower paid staff would not themselves be able to afford the employee contributions generally required to attract an employer contribution, as they prioritised their own day-to-day living costs over pension provision. Moreover employers felt senior and higher-salaried staff had greater expectations in terms of the level of employer contribution, and that offering a higher employer contribution as a benefit was an effective recruitment and retention tool. Some employers offered the most senior staff employer contributions in excess of 15 per cent, whereas some junior staff received contributions of less than three per cent.

'You reward senior people according to their worth to the company. Obviously replacing someone earning £100k or more is quite difficult; someone earning less is not so difficult.'

(250-19,999 employees, pension scheme with at least three per cent employer contribution)

- **Length of service**

In many companies employer contributions increased with length of service. Sometimes length of service was assessed in conjunction with salary in determining the level of contribution.

- **Workplace location**

In rare cases, employers offered head-office based workers higher employer contributions than branch-based employees. As there were more branch employees than head-office employees, it was considered unaffordable to offer all the higher level of contribution.

The types of staff particularly likely to be entitled to employer contributions of less than three per cent were:

- **Staff within a probationary period**

In most companies, staff had to be employed with the company for a certain period of time before they qualified to join a workplace pension that attracted employer contributions. This period was typically three months, but sometimes six months or one year. Employers felt justified in excluding an employee from joining the company pension scheme during the probationary period as it ensured pensions administration was only completed for those employees likely to remain in employment.

- **Younger staff**

A minority of companies employed staff under the age of 18. Where this occurred, employers generally did not offer such staff employer contributions.

- **Non-permanent and seasonal workers, including freelance staff**

Employers often did not offer these groups of staff an employer contribution. They typically stated that this was because they generally wanted to limit pension costs and administration and felt non-permanent and seasonal staff were an appropriate group of employees to exclude for two reasons. Firstly, they felt non-permanent and seasonal workers did not value pension provision as much as permanent staff, as they wanted to maximise short-term earnings. Secondly, due to high staff turnover among these workers, employers felt administration of any pension provision would be burdensome. In some cases, this also applied to non-UK nationals working in the UK on a short-term basis.

'The staff from Eastern Europe are on minimum wage. They don't want to contribute to a pension scheme as they are on low wages and don't intend to stay in the UK for very long.'

(5-49 employees, pension scheme with less than three per cent employer contribution)

2.3 Provision of salary sacrifice schemes and flexible benefits packages

In rare cases, employers offered pension contributions as part of a salary sacrifice scheme: employees could choose to receive a higher employer pension contribution in exchange for an equal reduction in cash pay. In other rare cases these pension contributions were offered instead of cash bonuses. In very rare cases employer pension contributions were included in a flexible benefits package.

'Those in head office get a flex pot of 7.5 per cent of their salary, which they can use on benefits, and pension is one of those.'

(250-19,999 employees, pension scheme with less than three per cent contribution)

2.4 Awareness of and planning for the reforms

Most employers were aware of the fact that the workplace pension reforms existed. However, employers' knowledge of details of the reforms varied considerably by company size; it was generally very limited among the smallest companies and was typically much higher among larger companies.

The smallest companies typically only knew that reforms were due to take place, along with the very broad features of the reforms. Often they had not chosen to find out more simply because they saw them as being distant.

In contrast, larger companies tended to have more in-depth knowledge of key aspects of the reforms. Most were aware of automatic enrolment for eligible staff and of the existence of minimum employer and employee contributions. In particular, they were aware of the need to provide for certain types of staff that might not currently be eligible, such as non-permanent employees or staff within their probationary period, as long as their earnings qualified them for eligibility. They also typically knew that employees were able to choose to opt out of being enrolled into a workplace pension scheme. Many were aware of the existence of NEST (National Employment Savings Trust), then referred to as the personal accounts scheme, as a qualifying pension. Most had consulted a range of information sources, including the pensions press, the general media, pensions advisers and accountants, training courses, the Department for Work and Pensions' (DWP's) and The Pensions Regulator's mailing lists, and professional membership bodies, e.g. The Chartered Institute of Personnel and Development.

'In my job I have to keep up to date with what's going on – I get information from our consultants, from the DWP and from websites.'

(250-19,999 employees, pension scheme with at least three per cent contribution)

Among the smallest companies no planning had generally taken place, and even some larger companies had yet to start planning, typically either because they were not aware of the reforms, or because they saw them as too distant or lacking finalisation for them to plan effectively.

'I think planning is possibly a little way down the line yet.'

(250-19,999 employees, pension scheme with at least three per cent contribution)

Whereas few had made specific plans as to how they might react to the pension reforms, many medium-sized and larger companies had begun initial discussions, such as preliminary meetings with advisers. These were largely informal discussions of possible options, rather than detailed plans of what the company would do. These employers generally felt that planning in 2009 was too soon, and they expected pension consultants to alert them when planning was necessary.

'That is why we have a pensions adviser. He hasn't told us much yet, but I'm sure when it gets nearer the time he will advise us.'

(5-49 employees, pension scheme with at least three per cent contribution)

The very largest companies, of 20,000 or more employees, generally had more detailed planning processes in place. Most had assessed the range of possible effects, formed pensions committees and reviewed existing schemes with financial advisers. Some were in the process of refining administration processes in order to prepare for the reforms and assessing alternative pension scheme arrangements. However, none of the companies interviewed had adopted formal policies in response to the reforms, as they were still evaluating their options.

'We've set up a company pensions committee. We're looking at what we offer to see whether it's sustainable and competitive going forward, but have made no decisions as yet.'

(20,000 or more employees, pension scheme with at least three per cent contribution)

3 Likely changes to pension provision for different types of worker after implementation of the workplace pension reforms

In this chapter we examine how current pension provision for different types of workers is likely to change in response to the pension reforms. In Chapter 2 we showed that employers could be segmented into three groups based on their current workplace pension provision for the majority of employees:

- employers with no current pension provision;
- employers that offered most employees contributions of less than three per cent, which, therefore, would not meet the minimum requirements of the pension reforms;
- employers that offered most employees employer contributions of at least three per cent, which therefore would meet the requirements in terms of the minimum employer contribution.

In this chapter we again use these three categories to summarise the overall changes that different types of worker are likely to face. Chapters 4 and 5 will then go on to look in more detail at the type of scheme employers are likely to select for different staff, and the factors influencing the level of contribution employers are likely to offer.

3.1 The likely approach of employers with no existing workplace pension provision

Employers with no existing scheme, which were generally small companies of one to four employees, did not generally believe that employees would value a workplace pension, as the staff were often lower paid, non-permanent or seasonal, or had their own personal pension arrangements.

In response to the reforms, employers providing no existing pension provision for any of their employees will have to set up a qualifying workplace pension scheme for all of these workers. They will also have to enrol and provide employer contributions to all eligible staff, unless their staff opt out of the scheme once automatically enrolled.

Most of these employers said they were likely to choose one single qualifying workplace pension scheme in which to enrol all of their eligible employees. This is because they considered one scheme to be easier to set up and administer than multiple schemes. As these employers generally had few employees, they felt that the additional time needed to select and administer multiple schemes would outweigh any potential benefits for employees.

In most cases these employers expected to pay the minimum three per cent employer contribution required under the reforms to all staff, and no more. As mentioned in Section 2.1, many of these employers considered pension provision to be the sole responsibility of the employee, and so felt that paying a contribution was beyond their responsibility as an employer. They also believed that employer contributions of more than three per cent would be unaffordable.

'For small one-band shows like ourselves, it is putting a great strain on the company.'

(1-4 employees, no pension scheme)

A small minority of employers felt that they would not need to make employer contributions at all in response to the reforms. Different reasons were given for this, and were mainly based on staff choosing to opt out of any scheme that is set up, which we discuss further in Section 5.2.2:

- Their employees would be likely to opt out of any scheme offered because they would not be able to afford to make the required employee contributions. Employers felt this would particularly be the case with their lower paid workers.
- Employees would be likely to opt out because they had their own personal pension schemes.
- Employers would change their staff profile, and simply avoid employing staff that were eligible for automatic enrolment under the reforms. This potential approach is discussed further in Section 5.3.

In rare cases some small employers did suggest that they wanted to offer their staff something over and above the minimum requirements of the reforms when they are implemented, even though they do not do so now, in order to attract and retain good employees.

'I will offer the requisite three per cent. I might even consider offering a higher percentage to attract better people. I might consider offering five to ten per cent to attract someone really good.'

(5-49 employees, no pension scheme)

3.2 The likely approach of employers currently offering most employees a contribution of less than three per cent

Employers who were currently offering most staff employer contributions of less than the three per cent required under the reforms were present across all size categories. Although all employers in this group made at least a group stakeholder pension (SHP) available to employees, membership was often very low. Those with large numbers of staff that were currently receiving less than a three per cent contribution will be among those that potentially face the greatest increase in contribution costs: increasing from zero or very little currently, to at least three per cent after the reforms are implemented.

Workers receiving less than three per cent included, in particular, lower paid workers, less senior staff, staff with shorter service, younger staff, and staff within probationary periods. To meet the minimum requirements of the reforms employers typically stated that they would choose to enrol these employees into their existing pension schemes, either stakeholders or group personal pensions (GPPs), as these had already been set up and so they were familiar with the administration surrounding these schemes.

Some employers did suggest that they might consider setting up a brand new scheme for these employees. These tended to be employers with a high proportion of non-permanent and seasonal staff: they stated that they might consider NEST (National Employment Savings Trust) for employees currently receiving less than the requirements of the reforms. This was because it was perceived to offer employers simplicity in terms of ease of administration, representing a lower cost option, and offering employees transferability when they changed employers, which was frequent in their industries. Consideration of NEST is discussed further in Section 4.3.

These employers typically expected only to be able to offer this group of employees the minimum contribution of three per cent, in order to comply with the requirements, while minimising their contribution costs.

'No changes to the type of pension offered are planned. We'll go for the minimum contribution for employees we will have to enrol.'

(20,000 or more employees, pension scheme with less than three per cent contribution)

Where these employers had a minority of employees currently entitled to a three per cent contribution or more, they generally did not envisage changing employer contributions for this group either up or down. They felt that, as the impact of the reforms would already be large for their organisation, they could not afford, at this stage, to further differentiate contributions for these employees by increasing them, but equally they did not wish to diminish existing benefits offered by reducing them.

3.3 The likely approach of employers currently offering most employees a contribution of three per cent or more

Employers that already offered most employees an employer contribution of at least three per cent were likely to face the lowest impact overall in terms of changes to their employer contributions. The main effect of the reforms for this group was expected to be the increase in membership levels brought about by automatic enrolment, as well as bringing any remaining staff not currently receiving three per cent up to the minimum.

In this respect, the degree of expected impact largely depended on current membership levels. Where take-up was currently low, automatic enrolment was expected to lead to a significant increase in membership levels. Where it was already high, employers were generally eager to point out that most of their employees had already taken an active decision to join, and so the reforms, and automatic enrolment, would not affect them significantly.

Where employers only had a minority of staff not qualifying for their existing scheme, they generally expected to enrol them into their existing defined contribution (DC) or GPP schemes, because they were already established and familiar. Some employers suggested that they might consider enrolling these staff into a new qualifying workplace pension scheme, such as NEST, if this were to limit the cost of their pensions administration, although they felt that this was by no means certain, and would require further investigation.

Employers would generally bring employees currently receiving less than three per cent up to the minimum, to limit pension contribution costs. Employers felt that to offer pension contributions of more than this to groups currently receiving less would be unaffordable. Moreover, many felt it would not be good business practice to offer non-permanent or seasonal staff higher employer contributions because there had been no commitment from them to continued employment.

Similarly they did not wish to offer higher contributions to probationary staff because the company and the employee had yet to determine mutual suitability for the role.

These employers generally expected to maintain any employer contributions of greater than three per cent currently paid to employees, as they wanted these more generous contributions to continue to serve as a recruitment and retention tool among permanent employees. Indeed, a small minority of employers felt employer contributions might even increase at their company, to reflect the fact that all employers would now be offering employer contributions, and so to more effectively differentiate their company's pension scheme from other employers'.

Employers did not expect to lower employer contributions for existing staff, because this would have a negative impact on staff morale. In recent years some employers had effectively reduced pensions benefits by switching employees from defined benefit schemes to occupational DC schemes, with lower employer contributions. These employers were keen to avoid further eroding morale by reducing contributions again. Moreover they believed it would be difficult to reduce employer contributions without contravening staff employment contracts. This is discussed in more detail in Section 5.3.

'Whether in the future we can bring it down to three per cent for existing employees will depend on what we find out from the lawyers.'

(20,000 and more employees, pension with at least three per cent contribution)

Some employers currently offering schemes that did not require employee contributions would use the reforms as a reason to introduce a minimum employee contribution. For example, they may currently provide ten per cent employer contributions unconditionally, but in response to the reforms they may require an employee contribution of at least four per cent to receive this.

'At the moment the contractual obligation is ten per cent of their contracts, but we may choose next year to make changes to encourage employees to contribute something themselves.'

(5-49 employees, pension with at least three per cent contribution)

3.4 Awareness of the effect of the reforms on salary sacrifice schemes and flexible benefits packages

Section 2.3 showed that a minority of employers currently offered pension benefits as part of a salary sacrifice scheme, or more rarely, pension benefits as part of a flexible benefits package. Such employers were generally unaware of how the reforms might affect these.

In rare cases employers thought that salary sacrifice schemes might need to be evaluated to prevent employees from accepting lower employer contributions than the minimum permitted under the reforms: however most employers were uncertain of this. They typically acknowledged that they had not looked at the issue in detail.

'I don't know if you could say, "If you don't go into the pension scheme, we'll give you an extra one per cent as salary." We haven't gotten that far yet.'

(20,000 or more employees, pension with at least three per cent contribution)

4 Likely choice of pension scheme for different types of worker after the implementation of the workplace pension reforms

This chapter examines the schemes that employers are likely to choose once the workplace pension reforms are implemented. We have already discussed how they would prefer to treat different groups of workers under the reforms: this chapter now explores in more depth the issues surrounding their actual choice of scheme, and, for those that need to set up a new scheme, how they are likely to go about choosing one.

The research demonstrated that an employer's current approach to pension provision was likely to drive future choices in this area, and so this chapter examines the behaviour of employers with no existing scheme, and employers with an existing scheme, separately.

The second half of this chapter assesses initial reactions to NEST (National Employment Savings Trust), which at the time of interviewing was called the personal accounts scheme. We examine employers' likely consideration of the scheme and the employee types most likely to be considered for enrolment into NEST.

4.1 Likely choice of qualifying workplace pension scheme for employers with no existing scheme

Employers with no existing workplace pension were generally smaller companies, typically with one to four employees. These employers tended to be less aware of the options available to them in terms of selecting a pension scheme. They also generally believed that the responsibility for saving for retirement should in fact lie with the employee, and so were generally more reluctant to put significant time or money into investigating this. As discussed in Section 3.1, these companies expected to enrol staff who become eligible as a result of the reforms into one single qualifying workplace pension. They would therefore be looking for a new scheme to set up.

These employers were aware that they would have to adapt to changes in their business as a result of the reforms, but were often apprehensive about this because of their lack of experience with regards to pensions. Employers were generally unsure of the exact type of workplace pension scheme they would choose, and it was typically felt that they would need to seek guidance from a professional adviser as to which qualifying scheme would be most appropriate for their staff.

Employers were agreed that cost and affordability would be the key drivers in deciding which qualifying scheme to use. In order to minimise the amount of work that they faced, most employers in this category felt that they were likely to be looking for a low-cost, 'one-size-fits-all' solution to cover all employees. This would need to be simple to set up and straightforward to administer.

This made such employers appreciate the value of considering NEST as a qualifying scheme when it was introduced to them, because they saw it as a scheme that was guaranteed to be compliant with the reforms without the need for any further research.

'I wouldn't have time to research all the options for my staff. I would be happy enough to offer them a pension if that is what is required, but I'd like to find a simple answer as to what's available.'

(1-4 employees, no pension scheme)

4.2 Likely choice of qualifying workplace pension scheme for employers with an existing scheme

As discussed in Chapter 3, employers who had an existing pension scheme in place for employees, whether or not they currently offered a contribution, typically expected to continue to use this pension for most staff, if feasible, although there were occasions where employers expected to use a new scheme. Both of these scenarios are explored in this section.

It is important to note that employers generally still felt that they would need professional input from an adviser before they could make any decisions. In particular they felt that they still needed to consider what the financial impact of the reforms would be, both in terms of contribution costs and administration costs. Both of these 'unknowns' are explored further in Chapter 5.

4.2.1 Circumstances where employers were likely to use their current scheme

Employers that already had a pension scheme covering some or all of their staff typically expected to continue to use these schemes, and if necessary extend them to ensure that all eligible employees were included.

Most of these employers believed their existing schemes were operating well, and wanted to avoid unnecessary change. Employers felt that they had experience in terms of how to run their current schemes, confidence in the processes involved, and had often established positive relationships with their existing brokers.

Employers that were offering contributions of three per cent or higher saw their schemes as generous and a real benefit to their employees. They therefore often believed that it was in the interest of the employees that would become eligible for a pension scheme under the reforms to join these existing schemes. These employers saw little reason to go through the effort of changing the scheme used by staff: in any case, the cost and time associated with switching simply gave them little incentive to set up a new scheme.

Even many employers that were not making any contribution into an existing group stakeholder pension wanted to continue to use these schemes to enrol newly-eligible employees under the reforms. This was generally because they had set them up in response to the stakeholder legislation introduced in 2001, and now they had the opportunity to benefit from the time they had spent in setting them up. Again, they saw no reason to go through the perceived hassle and cost of setting up a new scheme.

A minority of employers also suggested that there should be no differentiation in terms of the scheme offered to different types of workers on principle. Even if different workers received different contributions, if a company scheme was seen as good enough for junior staff, it should also be good enough for senior staff.

'The preference would be to use one single scheme for all – the company has never liked to differentiate between different groups of employees when it comes to pensions and there's no reason why they should do so now.'

(250-19,999 employees, pension with at least three per cent contribution)

4.2.2 Circumstances where employers were likely to consider new schemes

Some employers that were only currently offering pension contributions to a small proportion of their total workforce suggested that they might set up a completely new scheme for their workers who became eligible for automatic enrolment into a pension scheme under the reforms. This was particularly the case for employers that faced a significant proportion of their current workforce becoming eligible for contributions at the same time.

Employees affected tended to be lower-paid workers, shorter-term staff or those who had recently joined their company. These employers often felt that staff benefits such as a high pension contribution were an employee incentive, and had to be earned via performance or tenure, and they were less willing to enrol these employees into existing schemes that were currently reserved for more senior staff.

Although these employers were typically unsure which scheme they might use, ease of administration was typically a major consideration, as large numbers of employees would need to be enrolled at once, and NEST was seen to offer a simple, low-cost solution for those on lower wages.

Some employers who had multiple schemes in place gave consideration to simplifying or consolidating their various defined contribution pension schemes into one single approach. This was to reduce the administration they currently faced when using multiple pension providers. Some employers noted that this would not solely be a response to the reforms, but to a more general issue that needed to be addressed in order to create a more coherent pensions offering with one, more streamlined approach. However the reforms were often expected to act as the catalyst for this change.

4.3 Likely consideration of NEST

At the time the research was carried out, the Personal Accounts Delivery Authority had not yet begun to publicise NEST, which was then known as the personal accounts scheme. To help the government understand employers' possible reactions to this brand new scheme, which is a key aspect of the workplace pension reforms, employers in this study were asked whether they would consider offering it to any of their own employees (in particular, those on a moderate or low income not currently covered by pension provision).

All of the participants in this survey were shown the following information about NEST, which is one scheme that employers will be able to use as a qualifying scheme if they wish:

- NEST will require the same minimum employer and total contributions as any other workplace pension scheme, and individuals can opt out following automatic enrolment if they do not wish to remain saving.

- NEST will be run by a trustee organisation, whose primary aim is to ensure that the pension scheme makes money for its members, rather than profits for shareholders.
- NEST will have a default investment fund option that will automatically select where people's savings are invested on their behalf. For people who wish to be more involved in how their contributions are invested there will be other options enabling them to choose the type of investments they make.
- A maximum of £3,600 a year can be put into this scheme for each member.
- Transfers of other pension funds into NEST, or out of NEST into other pension funds, will not be possible.
- Individuals can remain contributing into their NEST pension scheme even if they move employers. If their new employer also uses this scheme, they will continue receiving contributions from their new employer and can continue to make their own contributions. If their new employer does not use NEST, or if they become self-employed, they can continue if they wish to make their own contributions into the scheme.

4.3.1 Factors that may influence consideration of NEST as a workplace pension scheme

Very few employers were aware of the existence of NEST prior to being given the information about it. Only the largest companies appeared to have an understanding of NEST, as they did about other aspects of the reforms.

Employers in small companies with no pension scheme in place, particularly within industries with a high staff turnover, such as retail and catering, said that they would be likely to consider enrolling employees into NEST. They felt that they would be looking for a simple, low-cost solution to pension provision, and viewed these workers to be the target at which NEST is aimed. Although most employers with pension provision already in place stated that they would prefer to use or adapt their current scheme, many did state that they would consider NEST if this approach was not feasible, or if they were advised to do so.

The employers likely to consider NEST as a workplace pension typically perceived it to be a simple, ready-made, low-cost solution that would be suitable for all staff that became eligible for workplace pension provision under the reforms. They were therefore generally positive about the idea of NEST in principle, and typically agreed that a scheme established by the government to ensure all employees have access to a suitable pension scheme should ensure compliance with the reforms, and come to be recognised as a good way of saving by both employers and employees.

This group often also perceived NEST to be less burdensome in terms of administration, and therefore, it was also assumed by some to be a lower-cost option than using traditional providers, mainly because of the perceived lower set-

up costs involved. Some employers also anticipated that adopting NEST as their workplace pension would alleviate the need for investment in researching various options, and this particularly appealed to smaller companies with limited internal pensions knowledge.

'Having just had a look at the information on [NEST] – I think that would be the one we would go for – because it's simple and the lowest cost one, and looks like the least amount of administration.'

(5-49 employees, no pension scheme)

The portability offered by NEST was appreciated by companies with a high staff turnover, as employees could take their account with them when they left the company and continue paying into it if they wished. Similarly, it was noted that employees joining from other companies that used NEST might consider it beneficial if their new employer also offered this scheme. This was seen to be a positive solution to prevent people from amassing multiple, tiny pension pots.

'It's a good idea, if people move jobs they can carry it on in the next job.'

(1-4 employees, no pension scheme)

Some employers did express concerns with regard to enrolling their staff into NEST. These concerns included the reliability of such a new scheme, which had not yet been trialled in a real-life scenario.

'I think it's early days yet but I'm not convinced that [NEST] won't fall apart at the admin stage... We may change our view at a period down the line. I'd like to see it up and running properly first before we decided to go into it down the line.'

(250-19,000 employees, pension with at least three per cent contribution)

There was occasionally some confusion over whom NEST was targeted at, and whether the scheme was aimed only at those beginning to save for a pension. Some employers did question the rationale behind the £3,600 annual contribution cap, pointing out that it might prevent NEST from being used by individuals later on in their career as their salary increases.

'Unless I've misunderstood it – it looks like an "Introduction to the pension scheme".'

(5-49 employees, pension with at least three per cent contribution)

There was some uncertainty over what was meant in terms of the scheme being 'run by trustees'. Some employers also questioned the option of allowing staff to choose funds in which to invest, expressing concerns over how it would be ascertained that funds invested in were secure, and how the default investment fund would be selected.

Rarely, some employers expressed a concern that employees might ask them for advice on which investment options they should choose, and they were not in a position to be able to give such advice. Others questioned how much support NEST could possibly offer to employees that needed guidance.

Very rarely, some employers even questioned whether NEST funds, as they were seen to be invested with the government, might in fact be used by the government for other purposes. In reality, this cannot be the case, as the money is invested by a trustee corporation at arm's length for the government, and so belong entirely to the individual.

'If the government falls on hard times and needs to start supporting commercial banks, where is the guarantee that the money the public has invested is not going to be reinvested somewhere else?'

(50-249 employees, pension with at least three per cent contribution)

4.3.2 Types of worker considered most likely to be automatically enrolled into NEST

The employers interviewed generally felt that NEST would be most appropriate for their junior, or lower-paid staff. Many also felt that it would be an appropriate choice for staff that were likely only to stay at the company for a relatively short period of time, as the scheme was often perceived to be easy to administer for the employer, and a portable option for the employee.

For employers who already had a pension scheme in place for certain groups of employees, NEST represented an option that was compliant for enrolling the remaining staff that were not currently in a scheme. Again, this included new employees, and less senior members of staff, who were likely to be offered lower contribution levels than workers in existing workplace pension schemes.

5 Factors that may affect employer contribution levels for different types of worker

Chapters 3 and 4 examined employers' likely approach to pension provision for different types of worker, and the schemes that they were likely to consider.

Far less certain to employers at the end of 2009 was the level of contribution that they would be able to pay different types of worker. This depended on how costly the reforms would be to them as an employer, which was very difficult to predict, as it depended on a wide variety of factors, which are explored in this chapter.

Some employers predicted an increased administrative burden and cost associated with implementing the new requirements (see Section 5.1). Some felt that the minimum contributions that they would have to make on behalf of all eligible employees under the reforms would have a significant impact upon them financially, depending on the proportion of employees automatically enrolled (see Section 5.2).

We examine situations where employers felt that complying with the minimum requirements of the reforms would be unaffordable; the expected impact of the reforms on the level of contribution employers would be able to pay is discussed in Section 5.3.

5.1 The likely administrative costs of the reforms

Employers' believed that the likely administrative costs of the reforms were likely to stem from three main areas:

- **Selection of scheme**

Employers expected the selection of the appropriate scheme to require some degree of research, which would either mean dedicating significant internal time to the process, or paying for external advice. These concerns were strongest amongst those with no current scheme in place.

- **Communications**

Employers expected to need to arrange a company-wide communications programme, in order to advise employees of their new options and the processes involved. Many expected to be asked about the effect of the reforms on a regular basis, in terms of the impact that they would have on employees themselves and their income, or regarding the way their pensions were calculated and administered. Again, those with no current scheme in place were most concerned about their own ability to handle this process.

- **Setup and running the scheme**

Some expected the logistical setup of schemes to be a time-consuming process, in particular in ensuring that all eligible employees under the reforms are automatically enrolled from day one. Employers in small companies were particularly concerned as they often did not have a dedicated administration department that could take responsibility for pensions administration alongside other human resources duties.

Most employers expected that the processing of opt-outs and opt-ins would be the element of the reforms that would take up the greatest amount of administrative time and effort. This was particularly true of employers who had significant numbers of part-time or temporary staff, and who were concerned about the administrative burden of having to manage and process large numbers of opt-outs each year, placing a considerable administrative burden on them. Some were also concerned that, without a probationary period, staff that chose to leave after a short period of time would create an excessive administrative cost to the company. Companies with a high staff turnover considered this to be a major issue, with the perceived prospect of having to constantly enrol and then remove staff from the company scheme a concern.

Larger organisations with many staff not currently covered by a pension scheme also considered the increased administrative burden to be an issue. This was because of the perceived time it would take to enrol or un-enrol large numbers of employees. Employers whose workers were located across a number of sites, and who were not office-based or did not have access to a computer, were particularly concerned about increased administration, because they expected it to be difficult to ensure effective communication of the requirements of the reforms to staff in multiple locations. Similarly, distributing and gathering the necessary forms was also considered difficult without computers, particularly when staff were working in various areas across the country.

Some employers mentioned that they would need to brief several different parties about the requirements of the reforms to ensure that all the necessary procedures were being followed: for example accounts staff, IT staff, and external software managers who would need to implement the new processes into their payroll software.

Many employers pointed out that as well as the administrative burden, the reforms could also entail direct costs. Some employers saw a need to employ additional staff to carry out administrative work, especially within larger organisations. Employers who used professionals to help them with either the processing and managing of pension schemes or to provide advisory services also expected to incur additional cost because of this.

Some employers did not envisage a considerable administrative burden as a result of the reforms. These tended to be the employers who were already offering all or most of their staff employer contributions of three per cent or more. These employers' pension schemes had already been established, or could easily be extended to incorporate new joiners, with the department responsible for payroll easily able to process new members and pension contributions.

5.2 The likely total cost of employer contributions as a result of the reforms

Employers generally felt that the additional pension contributions that they would have to make to newly-eligible employees would have the greatest financial impact on their organisations. They typically recognised that this would be strongly influenced by the proportion of the newly-eligible employees that decided to opt out. But as they had no way of predicting this figure, employers were generally unable to predict the financial impact that the reforms might have overall.

Employers generally agreed that switching from opt-in to automatic enrolment would inevitably mean that more employees would join the scheme, but the extent of this was not clear.

5.2.1 Expectations regarding level of opt-out

Smaller companies with no current pension scheme in place, or organisations where current pension schemes had a low take-up, often expected most of their employees to opt out. Often these companies had a majority of lower-paid employees, and employers believed that the four per cent employee contributions required under the reforms would be considered unaffordable by employees. Some employers also highlighted the general lack of interest in saving for a pension among these groups.

Larger employers differed widely in terms of their expectations as to what proportion of employees might opt out, providing estimates of between zero and 90 per cent of all employees. All admitted that they were generally unsure as to the levels that they could expect.

5.2.2 Types of worker that employers expect to opt out

In general employers found it far easier to predict what types of worker they thought might opt out of joining a pension scheme than predicting how many they thought would opt out in total. In addition to this, at the time of this research the area of phased increases in employer and employee contributions in the implementation period was not finalised, and so few of the employers in this research were aware of this. Therefore they were unlikely to have taken phasing into consideration when discussing the types of worker they felt most likely to opt out.

Employers identified the following types of worker:

- **Low-paid staff**

Employers generally believed that staff on lower wages might not be able to afford to pay the required four per cent employee contribution into a pension, preferring to maximise their money in the short term. These included employees such as students working part time to fund their studies, or those who had second jobs. It also included staff that were trying to support a family on a low income.

'Probably the hourly-paid staff [would opt out] – those who are paid slightly above minimum wage level. Housekeepers, porters, kitchen and waiting staff don't earn highly, and will find losing four per cent difficult to cope with.'

(50-249 employees, pension scheme with less than three per cent contribution)

Previous research conducted by the Department for Work and Pensions (DWP) does however show that only a small number of individuals were likely to opt-out due to being unable to afford to save for retirement.⁹

- **Younger staff**

Employers often pointed out that they thought younger staff were not interested in saving for retirement, and instead had other priorities such as paying off student loans and purchasing property. Employers also felt that these employees were likely to view themselves as being too young to start paying into a pension, with a tendency for those under the age of thirty to see retirement and pensions as being too far in the future to worry about.

⁹ Webb, C., Pye, J., Jeans, D., Robey, R., and Smith, P. (2008). *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Research Report No. 550.

'The younger employees, under the age of 22, will largely opt out because they have problems with mortgages, student loans...The graduate intake find it very tough – the same as the under 22s – with student loans and accommodation costs – and they tend to find pension costs too much to take. This group will be most aware of the need to opt out because they're looking at every penny.'

(250-19,999 employees, pension with at least three per cent contribution)

The pensions reform legislation does recognise the fact that it might not be appropriate for certain individuals under the age of 22 to contribute to a pension, and consequently people under 22 will not be automatically enrolled under the reforms.

- **Foreign nationals working in the UK short term**

Employers believed that foreign nationals who might not remain in the UK long term would not be likely to want to contribute to a scheme in a country where they would not retire.

'Fifty per cent [of my workforce] would opt out. These will be foreign nationals: they are transient, just want the money and move on.'

(1-4 employees, no scheme)

- **Non-permanent or casual staff**

Some employers noted that temporary staff were not likely to consider it worth joining a scheme for a small amount of time, and so anticipated that these workers would opt out.

'I feel the non-permanent and consultancy staff would opt out, because they don't regard themselves as having a long-term relationship with the company.'

(50-249 employees, pension scheme with less than three per cent contribution)

- **Older employees**

Occasionally, employers felt that older employees might not want to start saving for a pension very close to State Pension age, as they would only be able to accrue very limited funds over such a short time period.

'If staff are already approaching 65 or even 60, they will opt out straight away because they will get Tuppence Ha'penny.'

(20,000 or more employees, pension scheme with less than three per cent contribution)

5.3 The effect of the costs of the reforms on the contribution levels that different workers may receive

In this final section we discuss the effect that the possible costs outlined earlier might have on the decisions that employers make about the levels of contribution that they might pay to different types of worker after the implementation of the reforms. This includes discussion of the likely extent of levelling-down: the possibility that an employer might reduce the pension contribution currently paid to certain employees to offset the additional costs.

Chapters 3 and 4 discussed the fact that, in most cases, employers did not wish to reduce the benefits available to existing members, because this might have a negative impact on staff morale, and even upon their ability to retain the best staff. But this was generally viewed as dependent on the degree to which contribution costs would increase.

5.3.1 The potential for changing existing employer contributions

Most employers agreed they would not ideally want to 'level down' contributions: in other words, reduce the level of pension contribution currently paid to members receiving more than the minimum three per cent in order to offset additional contribution costs from new members.

Some employers stated they would only do this if it was prompted by a real financial need. The most likely circumstance where it was perceived this could arise was if most of the newly-eligible staff were to join the pension scheme, with very few choosing to opt out. In this case, some employers feared they might not be able to afford the increase in contributions.

'If the majority of staff stayed in the scheme, we are likely to reduce our contributions from between five to 20 per cent to three per cent. Otherwise, we would be reducing our bottom line by at least 20 per cent.'

(250-19,999 employees, pension with at least three per cent contribution)

Many employers, however, expected to maintain current contribution levels for staff in existing schemes, whatever the level of opt-out, even despite any increase in membership. This was primarily because:

- reducing current contribution levels would have a negative effect on staff morale;
- they would be taking existing benefits away, which might constitute a breach of the employee contract;
- it might suggest that the company is not performing well financially;
- maintaining levels of contribution over three per cent, where offered, might not only help to retain staff but also attract new recruits.

Many employers were reluctant to even consider which groups of staff would face levelling down, if it were to happen. Some did point out however that lowering contributions paid to new joiners might be the least problematic approach, as this would not mean any changes to contract terms for existing employees (this is not quite the same as true levelling-down, although as new staff replace old staff the effect will be similar).

Some employers who currently offered tiered employer contributions depending on employee seniority suggested that more junior staff receiving lower employer contributions may continue to receive these lower percentages, even when they reached a more senior level. This meant that although contributions for these employees would not increase with seniority, they would not be taking away any contributions already received.

5.3.2 Other potential solutions if the financial impact is unaffordable

If increased contributions resulting from staff being automatically enrolled into schemes were found to be unaffordable to companies, some employers suggested a number of ways in which the problem might be addressed. Although a minority of smaller employers, such as restaurateurs, suggested that they might attempt to cover the cost of the increased contributions by increasing the prices that they charged customers, this was rare, and most suggested solutions that focused on the workforce itself. Previous DWP research showed that only 21 per cent of all employers surveyed said they were most likely to increase prices in response to an increase in pension contributions: and this response was less likely amongst employers with 50 or more employees.¹⁰

Some employers suggested that they might give consideration to decreasing existing benefits to employees, for example by freezing pay or withdrawing bonuses. Additionally, some companies stated that when calculating the appropriate salary for new joiners, they might consider lowering the salary by an amount equivalent to the required three per cent employer pension.

Other rare suggestions included reducing the hours that employees worked, or only taking on self-employed or part-time employees. In very rare cases, employers suggested that if they could ensure that all employees were earning £5,035 or less a year, they would not then need to provide them with a pension contribution under the reforms at all.

However ideas such as these were usually seen as a last resort: no employers stated that they had made any formal plans to begin these processes, and some stressed that these situations would only materialise if prompted by real financial necessity.

¹⁰ Grant, C., Fitzpatrick, A., Sinclair, P. and Donovan, J. (2008). *Employers' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Research report No. 546.

6 Summary comments

The workplace pension reforms are intended to overcome a number of barriers that prevent people from making a decision to start saving. But the full impact of the requirements will nevertheless be influenced to a great extent by the behaviour of employers, particularly in terms of which types of worker they enrol into which schemes, and how they choose to approach existing pension benefits offered to staff.

This qualitative research essentially showed that, as far as possible, employers hoped to extend existing pension coverage to newly-eligible employees, while maintaining the existing benefits structure applied to staff that already receive more than the minimum. Indeed, in most cases, employers did not wish to reduce the benefits available to existing members, because this might have a negative impact on staff morale, and upon their ability to retain the best staff.

While it was clear that their ability to retain these benefits would depend on increases to contribution costs, which, in 2009, were still an unknown, it appeared that the reforms were unlikely to cause most employers to reduce existing benefits.

Indeed, it appears that many employers' overall approaches to existing pension benefits are unlikely to change significantly. Employers with no current pension provision in place in 2009 were likely to pay the minimum three per cent employer contribution required under the reforms to all staff, and no more, believing that employer contributions of more than three per cent would be unaffordable. Employers that already offered most employees an employer contribution of three per cent or more generally expected to maintain any employer contributions of greater than three per cent currently paid to employees, as they wanted these more generous contributions to continue to serve as a recruitment and retention tool among permanent employees.

Finally, the employers interviewed generally felt that NEST (National Employment Savings Trust) would be most appropriate for their junior, or lower-paid staff, with no indication that they would use the scheme for those on higher incomes. NEST is being set up to make low cost pension provision available to low to median earners, which appears to fit with how employers viewed the scheme. Employers also felt that NEST could be an appropriate choice for staff that were likely only to stay at the company for a relatively short period of time, as the scheme was often perceived to be easy to administer for the employer, and a portable option for the employee.

Appendix A

Methodology

A.1 Respondent profile and geographical scope

The sampling and recruitment plan was designed to ensure that the 62 employers reflected a spread of different company sizes (measured in terms of number of employees), industry sectors and geographic location. The mix that was achieved is shown in Table A.1.

It was also important that we spoke to employers that currently offered a range of different types of pension provision to different staff. For the purposes of recruitment, three different levels of pension provision were identified:

- 1** an occupational pension;
- 2** a group personal pension (GPP) or group stakeholder pension (SHP) with an employer contribution;
- 3** a pension with no contribution or no pension at all.

Employers could offer one, two or all three of these different levels of provision to different staff. To gain a full picture of the behaviour of different types of employer in this study, we felt it important to include a spread of employers offering different categories of pension to different staff. The Venn diagram in Figure A.1 shows how many employers offered either one, two or three different categories of pension to different staff.

Table A.1 Number of employers included in the study, by size, industry sector and geographic location

Category	Number of employers
Total	62
Number of employees	
1-4 employees	12
5-49 employees	13
50-249 employees	15
250-19,999 employees	17
20,000 or more employees	5
Industry sector	
Agriculture/mining/manufacturing/construction	14
Wholesale/retail	17
Hotels/catering/transport	13
Finance/property/business services	12
Other sectors	6
Geographic location	
Scotland	5
North West	1
East Midlands	2
West Midlands	5
East of England	10
London	31
South East	6
South West	2

Figure A.1 How many of the 62 employers in the study offered different categories of pension to different staff

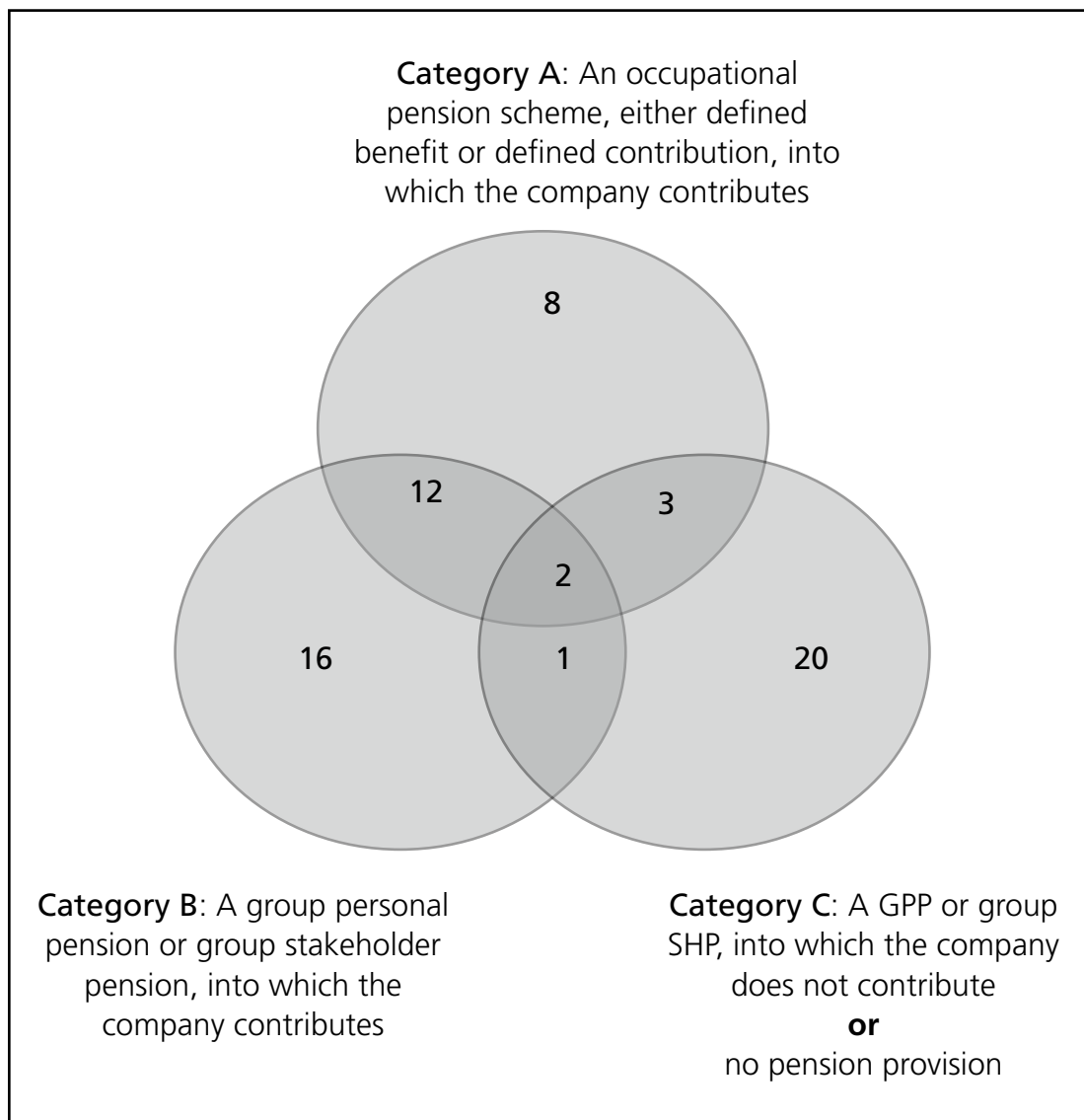


Figure A.1 shows, for example, that eight of the employers we interviewed offered an occupational scheme to all staff; 12 offered an occupational scheme to some staff and a contributory GPP or group stakeholder pension to others.

During the analysis stages of this study, it emerged that an important driver of employers' behaviour was the maximum level of employer contribution that employers offered the majority of employees. Table A.2 shows how many employers fell into each of the categories of pension provision that we subsequently identified.

Table A.2 Level of pension provision offered by the 62 employers in the study

Pension provision (scheme offered to most employees)	Number of employers
No scheme	16
Scheme with no employer contribution, or less than three per cent	11
Scheme with at least three per cent employer contribution	35

A.2 Analysis and reporting

Digital audio recordings were made of all of the individual depth interviews for analysis purposes, with the explicit permission of all of the participants. No participants declined permission. We used each recording to write up the interviews. These write-ups were not simply summaries of the interviews: all substantive comments made by participants were transcribed into answer fields next to the most relevant question (or sub-question) of the discussion guide. The recordings were destroyed at the end of the project.

Working closely together, the team analysed the results of the individual depth interviews at an individual respondent level to produce an internal summary document identifying key emerging themes and provisional findings.

Senior RS Consulting staff other than the interviewer read the first draft of each interview write-up, to ensure that the information was clear, comprehensive, and internally consistent. Where any apparent inconsistencies in the transcription were identified, or where further information could have been useful to explain and explore issues further, the interviewer called back the participant to request further information. Some participants were also re-contacted later on as new, potentially interesting, themes emerged from the research programme, that may have warranted further investigation.

In addition, a custom-made spreadsheet was produced, which allowed the team to collate and analyse the large quantities of data we collected. This allowed specific groups of participants' answers to be analysed together and compared. It also helped the team to identify useful verbatim comments, illustrative examples and attributions, all of which were used to add depth to this written report.

Working together, the team produced an initial document identifying key emerging themes, which formed the basis of an initial report of findings delivered internally to DWP and PADA; and subsequently this written report of findings.

Appendix B

Materials used in conducting the research

B.1 Screener

Introduction for Switchboard/Gatekeeper

Please could I speak to...

1-4 employees: the owner of your company?

5-249 employees: your Finance Director?

250+ employees: your Pensions Manager? **If not:** In that case, could I please speak to your Finance Director?

If positions do not exist: In that case, could I speak to the most senior person responsible for employee salaries and benefits?

If asked: My name is and I am calling you from RS Consulting on behalf of the Department for Work and Pensions. The DWP is currently conducting research to explore employers' reactions to the forthcoming workplace pension reforms.

If necessary, offer to send letter from DWP, either by post or email. Confirm contact details and send. Continue discussion now if possible.

Introduction for potential respondent

My name is and I am calling you from RS Consulting on behalf of the Department for Work and Pensions. The DWP is currently conducting research to explore employers' reactions to the forthcoming workplace pension reforms. The research will help the government understand how the new regulations will impact upon different employers.

Under the reforms, employers will need to automatically enrol all eligible workers into a qualifying workplace pension from 2012, and provide a minimum contribution of 3%.

As part of this, DWP is conducting confidential, face-to-face interviews with a range of employers across the UK, to help inform ongoing policy decisions around the reforms.

Can I confirm that you are the most senior person responsible for employee salaries and benefits?

If so: I am calling to find out whether your organisation would qualify and be willing to participate in this research. As thanks for contributing, we are offering a £50 Amazon gift voucher or a charity donation.

So I can confirm that you do qualify to participate, do you mind if I ask you some brief questions about your organisation?

If reassurance on confidentiality requested: Anything you tell us during the course of the research will be treated in confidence. It will not be passed back to DWP in any way that could identify you personally, or your organisation. We will not tell DWP which organisations participated in this research.

If necessary, offer to send letter from DWP, either by post or email. Confirm contact details and send. Continue discussion now if possible.

Screening

1 How many employees does your company have in total in the UK?

1 to 4 employees	1	Ask Q2
5 to 49 employees	2	Skip to Q3
50 to 249 employees	3	Skip to Q3
250 to 49,999	4	Skip to Q3
50,000 employees or more	5	Skip to Q3
<i>Cannot say</i>	6	Thank and close

Only ask if company has 1 to 4 employees:

2 Does your company have employees that are not directors of the company?

Yes	1	Continue
No	2	Thank and close
<i>Cannot say</i>	3	Thank and close

- 3 We understand that your industry sector is classified as [industry sector]. Is this correct?

Yes	1	Continue
No: what would be the correct sector?	2	Record sector _____ Continue
<i>Cannot say</i>	3	Thank and close

- 4 Could you briefly describe the function of your company?
- 5 In which areas of the country is your company based? **Obtain all, do not read out unless necessary. If multiple:** Where is your head office situated?

	All locations	Head Office	
Northern Ireland	1	1	Thank and close if this is the only location
Scotland	2	2	
North West	3	3	
North East	4	4	
Yorkshire & Humberside	5	5	
East Midlands	6	6	
West Midlands	7	7	
East Anglia	8	8	
Wales	9	9	
South West	10	10	
South East	11	11	
Greater London	12	12	

- 6 And finally I just need to confirm whether you have any pension provision for your employees. Does your company offer a pension scheme to any of its employees?

Yes	1	Continue
No	2	Skip to Recruitment
<i>Cannot say</i>	3	Thank and close

- 7 I am going to read out four different types of pension provision. Could you tell me whether any of your staff receive the following pension provision?
Read out each, multiple response allowed

An occupational pension scheme, either Defined Benefit or Defined Contribution, into which your company contributes	1
A group personal pension or stakeholder pension, into which your company contributes	2
A group personal pension or stakeholder pension, into which your company does not contribute	3

- 8 Do you offer a pension scheme to all employees?

Yes	1
No	2
<i>Cannot say</i>	3

Recruitment

If not recruiting: I am sorry to say that you actually fall outside of the range of companies that we need to recruit as part of this study. **Apologise for taking up respondent's time. If asked, explain that report is likely to be available in mid-2010 from the research publications section of the DWP website. Thank and close.**

If recruiting: We would very much like to interview [company] as part of this study. The interview would take no longer than an hour, at your workplace or somewhere else if you prefer. After the interview we will send you personally a £50 Amazon gift voucher or charity donation as a 'thank-you'.

I will send you now details of the topics that we will discuss in the interview, as well as a leaflet explaining what the reforms will mean for your organisation and some information on a new pension scheme called personal accounts. It is very important that you familiarise yourself with this information before the interview. There will also be a short company profiler for you to complete and give to your interviewer. Is this ok? **Only recruit if respondent is happy to commit to participate in full.**

Confirm contact details and arrange provisional appointment date/time.

Respondent name: _____

Email address: _____

Telephone: _____

Address of interview: _____

Provisional date/time: _____

Other instructions: _____

Read reassurance on confidentiality: I can assure you that anything you tell us during the course of the research will be treated in confidence. It will not be passed back to DWP in any way that could identify you personally, or your organisation. We will not tell DWP which organisations participated in this research. **Ensure that respondent is clear on this, and allow them to ask any questions.**

Confirm that you will send them:

- Confirmation of the name of the interviewer and the appointment details
- An introductory letter from DWP (**if not already sent**)
- A letter from RS Consulting, describing the interview topics
- A leaflet about the reforms
- A 1-page profiler for them to complete

Confirm appointment with interviewing team then send email.

B.2 Introductory letter



Employer & Industry Research Team
Workplace Pension Reform Strategy Division
Department for Work and Pensions
7th Floor Caxton House
Tothill Street
London SW1H 9NA

Tel: 020 7449 7262

Email: Laura.Andrews@dwp.gsi.gov.uk

[DATE]

Dear [NAME]

The Department for Work and Pensions (DWP) is conducting an important research study with employers throughout the UK. We have commissioned RS Consulting, an independent research agency, to carry out this work on our behalf.

What is the research about?

Workplace pensions are changing. From 2012, employers will be required to automatically enrol all eligible jobholders into a qualifying workplace pension and to make a minimum contribution into it. The new regulations are known as the workplace pension reforms.

Why are we writing to you?

The DWP is conducting confidential, face-to-face interviews with a range of employers across the UK, and would like to include [COMPANY] in this study. As thanks for contributing, we are offering a £50 Amazon gift voucher or a charity donation.

The purpose of the research is to understand how the new regulations will impact upon different employers. This information will be used to help inform ongoing policy decisions around the reforms.

What happens to the information collected?

All information given in the study will be treated in the strictest confidence by RS Consulting. No information identifying you or your company will be passed to the DWP or to any other organisation.

DWP has a commitment to publish the research it undertakes, and so findings from this research will be published in due course. No information identifying you or your company will be published or shared with anybody outside RS Consulting.

Tape recordings of interviews will not be passed onto any third party and will be destroyed after the project finishes.

What happens next?

A representative of RS Consulting will already have called you to ask you to take part in a confidential, face-to-face interview at a time that is convenient for you. It is estimated that the interview will take up to one hour.

If you have any queries about this project, please contact Jason Leong at RS Consulting on 020 7627 7771 (between 9am and 5pm Monday to Friday) or by email at jleong@rsconsulting.com.

Alternatively, if you would like to discuss anything further in relation to the research, please do not hesitate to get in touch with me.

We thank you once again for your help.

Yours sincerely



Laura Andrews

Employer & Industry Research Team
Workplace Pension Reform Strategy Division
Department for Work and Pensions

B.3 Topics to discuss



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A Cello business
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Priory House, 8 Battersea Park Road,
London SW8 4BH VAT No: GB 608 0326 68

Department for Work and Pensions – Research into the Pension Reforms

Thank you very much for offering to participate in this research study for the Department For Work and Pensions, focussing on the workplace pension reforms.

In our interview, we would like to discuss with you the following broad topics:

- The profile of staff that you currently employ.
- Any staff pension provision you might offer now, and how this varies between different types of staff.
- The workplace pension reforms that will be implemented from 2012 (see leaflet).
- Changes that you feel your organisation might consider as a result of the reforms.
- Whether after 2012 you might consider offering different pension provision to different groups of staff, for example:
 - Might you provide different types of scheme to different employees, or use one single scheme?
 - Might you contribute different amounts to different staff?

We recognise that as an organisation you may not yet have considered many of the issues mentioned above. We would be grateful if you could consider the topics in advance of our interview – but rest assured that we will not be requesting detailed, numeric data about your future plans; and you should not need to refer to a professional advisor to answer any of these questions. We are simply interested in what your priorities are as an organisation, and how you might approach the new requirements.

An information leaflet about the pension reforms, and one giving more detail about the personal accounts scheme, is enclosed. Please do familiarize yourself with this information before the interview.

Finally, a one-page self-completion profiler is enclosed. We would be grateful if you could complete the details requested, and give it to your interviewer on the day.

Thank you again in advance for your help in this important research.

Yours sincerely,

A handwritten signature in cursive script that reads "leong".

Jason Leong
Project Manager

B.4 Information on Personal Accounts scheme

The Personal Accounts Scheme

Employers may already have their own workplace pension scheme, which meets the new government standards. For those employers who do not have such a scheme or do not wish to enrol their workers into their existing scheme, the government will be setting up a new scheme known as the personal accounts scheme. It will work in a similar way to the workplace pension schemes we have already discussed.

For example, it will require the same minimum employer and total contributions as any other workplace pension scheme, and individuals can opt out following automatic enrolment if they do not wish to remain saving.

Key features of the personal accounts scheme

- The personal accounts scheme will be run by a trustee organisation, whose primary aim is to ensure that the pension scheme makes money for its members, rather than profits for share-holders.
- The personal accounts scheme will have a default investment fund option which will automatically select where people's savings are invested on their behalf. For people who wish to be more involved in how their contributions are invested there will be other options enabling them to choose the type of investments they make.
- A maximum of £3,600 a year can be put into this scheme for each member.
- Transfers of other pension funds into personal accounts, or out of personal accounts into other pension funds, will not be possible.

Individuals can remain contributing into their personal accounts pension scheme even if they move employers. If their new employer also uses this scheme, they will continue receiving contributions from their new employer and can continue to make their own contributions. If their new employer does not use personal accounts, or if they become self-employed, they can continue if they wish to make their own contributions into the scheme.

B.5 Interview discussion guide

- Introduce self and RS Consulting
 - Research on behalf of DWP to understand how employers such as yourselves might approach the new requirements that will be introduced from 2012
 - Interviewing employers across all sizes and industries across UK
 - The discussion will take approximately 1 hour
- **Confidentiality:** Our responsibility is to produce an overall report for DWP which will draw together all the information and opinions we gather. Nevertheless, I can assure you that anything you tell me will be treated in confidence by the RS Consulting project team. It will not be attributed to you, or your organisation, either in our presentations or in the final project report which will be published by DWP
- **Ask for permission to record for our analysis purposes.** Recording will not be passed onto any third party and will be destroyed after the project finishes
- Before we start our discussion, do you have any questions?

A Current provision (10 mins)

Before we discuss the upcoming pension reforms, I would like to understand a bit more about your organisation now.

Ask for completed profiler.

Summarise/re-confirm the details below back to respondent. Answer any questions they have, and help them plug any gaps. Note down any supplementary information they provide:

- Are there any differences in annual staff turnover by different groups?
- Employee profile. Build up a complete picture of the different types of workers
- Pension provision. What type of pension provision and what employer contribution does each group of employees get? If not mentioned, probe specifically on differences by employee types on **Interviewer Checklist**
- **IMPORTANT NOTE THROUGHOUT INTERVIEW:** If the employer matches the employee contribution up to a certain level, note down this maximum level and the fact that it is matched. If some of these employees choose to contribute less, and consequently receive a lower employer contribution, this does not count as a difference between different groups of staff.
- For each scheme: What percentage of the eligible employees have joined the scheme? If known, find out whether this varies by employee types on **Interviewer Checklist (see end of discussion guide)**.

- Have there been any significant changes to the profile of your workforce in the past few years? **Only if necessary:** for example, as a result of a merger, or a transfer of staff from another organisation
 - If new staff as a result of a merger/transfer: Do these staff have existing pension provision? Obtain full details
- And do you anticipate any significant changes to the profile of your workforce in the near future?
 - **If so:** Do these staff have existing pension provision? **Obtain full details.**
- Do you offer a flexible benefits package to any of your employees? If so:
 - How does this work?
 - Is pension provision included as a flexible benefit?
 - To which types of employees is a flexible benefits package available? **Use Interviewer Checklist**
- Ask all: Do you offer any employees the option of receiving a higher pension contribution in return for lower cash pay (*in other words, salary sacrifice*)? **If so:**
 - Which types of employees?
 - How does this work?

B Attitude to pension provision (5 mins)

If no pension at all offered: I'd like to get an understanding of whether you feel an employer should pay its employees a pension contribution.

If any pension offered: I'd like to get an understanding of how much of a priority employee pension provision is for your company, relative to the other benefits you might offer.

- What role do you, as an employer, feel you should play when it comes to pension provision? Should the employer help to look after the employee's future interests, or should it be the employee's decision to save?
- **If no pension at all offered:** You do not currently offer a pension scheme. Why is this?
- **If any pension offered:** Why do you offer a pension to your employees?
 - How important a part of your overall employment package is your pension scheme?
 - What other benefits do you offer in your employment package?
 - How important is it to offer an employer contribution? Why do you [not] offer an employer contribution?

C Reasons for variation between employee types (10 mins)

PENSION TYPES

- If multiple pension types offered: You offer a different type of pension to [employee types]. Why is this? Be clear on all reasons e.g. different benefits offered to different staff/company merger/change of pensions provider or intermediary
- **If single pension type offered:** You offer the same type of pension to all of your employees. Why is this?
- If any employees are offered no pension provision at all: Why do you not offer pension provision to [employee types]? Probe in depth

CONTRIBUTION LEVELS

- **If multiple contribution levels:** You give a different employer contribution to [employee types]. Why is this?
- **If single contribution level:** You give the same level of contribution to all of your employees. Why is this?
- **If any employees are not offered any contribution at all:** Why do you not offer a contribution to [employee types]? Probe in depth
- **If any pension provision in place:** Is there ever a waiting period before employees are eligible to join the scheme? For which employees? Why is this? Probe in depth

D Attitudes to pension reforms (brief)

Now I'd like to look at the upcoming pension reforms.

Check that respondent was clear on the information about the workplace pension reforms and the personal accounts scheme. Any questions?

- Were you aware of the pension reforms, before we contacted you about this research? **If so:**
 - What features were you aware of?
 - Where was the information received from?
- What do you think the reforms will mean for your own organisation? Why?

Allow respondent to talk widely about what the reforms will mean in the context of the recession, and their own financial situation.

If respondent is unclear on any respects of reforms, reiterate main points:

1) employees will need to be automatically enrolled, but will be given the option to opt out if they wish 2) Employees that do not opt out must pay a 4% employee contribution 3) The employer will need to pay a 3% contribution to those employees that do not opt out.

- Have you already started planning for the reforms?
- Do you have any other changes already planned to pension-related benefits for any groups of staff (*not related to the pension reforms*)? What are these? Why are you making these?
- What proportion of your employees do you think might opt out?
 - Which groups of employees are most likely to opt out? **Use Interviewer Checklist.**
 - Why is this?

E Summary of changes in provision (5 mins)

I'd like to look specifically at what changes you might make in the area of pension provision as a result of the reforms.

If respondent is already planning any changes to pensions benefits that are not related to the reforms, be clear throughout which changes are a result of the reforms, and which are not.

- Overall, do you think you will make changes as a result of the reforms? What changes do you think you will make? **If not mentioned, probe:**
 - Any changes in the type of pension you offer different staff?
 - Any changes in the level of employer contribution you give to different staff?
 - ~ Why will these changes need to be made? **Try to understand what evidence they base their answers on. If appropriate, ask whether the respondent has started looking at these changes already**
- When will you make these changes? **(If necessary:)** Before 2012, after 2012 or both?
 - Who in your organisation would take the final decision regarding any changes?

F Schemes offered after 2012 (10-15 mins)

Reconfirm that respondent is clear with section of leaflet: "Which scheme can employers use?"

I'd like to look in detail now at the different types of scheme you might offer different employees.

- Do you know what type or types of pension scheme you will offer your employees after 2012?
 - **If yes:** What scheme(s)? (current scheme/personal accounts/other). Why? **If relevant:** Is this the same scheme(s) you offer now, or a different scheme(s)?
 - **If no:** How would you go about deciding this? **Explore in depth. If respondent would refer to advisor:** What criteria would you use to decide what scheme would work best for you? What scheme(s) are you likely to choose?

- If personal accounts not mentioned in depth, explain: We sent you some information about the Personal Accounts scheme. Have you had a moment to read this? If they haven't read it, show information at back of guide now
- Would you consider Personal Accounts for your organisation? Why/why not?
Explore in depth
- Ask all: Would you provide different types of scheme to different employees, or use one single scheme? Why? **If different:**
 - What type of different schemes? (current scheme/personal accounts/other) Why? **Explore in depth**
 - How would you decide which workers go in which schemes? Why?
 - Be clear which type of worker will be enrolled into which scheme and why. Probe in detail on all employee groups on **Interviewer Checklist**.
 - **If not covered probe specifically:** Would any non-permanent staff you employ be treated in the same way as other staff?
 - **If not covered probe specifically:** Would new joiners be treated in the same way as existing staff?

G Contribution levels after 2012 (10-15 mins)

Reconfirm that respondent is clear with section of leaflet: "What is the minimum contribution employers must pay?"

- **If any contribution currently offered:** Will you make any changes to the level of contribution you will offer your employees after 2012?
 - **If yes:** What changes? Why?
 - **If no:** Why not?
 - **If not known:** How will you go about deciding this? **Explore in depth.**
- **If no contribution currently offered:** What arrangements do you think you will make, in terms of the level of contribution you will offer your employees after 2012? Why? How will this work? **Understand why they are motivated to offer that amount (or if the minimum, why no more)**
 - **If not known:** How will you go about deciding this? **Explore in depth.**
- **Ask all:** Will you contribute different amounts to different staff? Why? **If different:**
 - What will these different contributions be?
 - What criteria will determine who gets what level of contribution? Why?
 - Be clear which type of worker will receive which level of contribution and why. Probe in detail on all employee groups on **Interviewer Checklist**.
 - Probe specifically on any groups currently receiving more than 3%: will they continue to receive that contribution?

- **If not covered probe specifically:** Would any non-permanent staff you employ be treated in the same way as other staff?
- **If not covered probe specifically:** Would new joiners be treated in the same way as existing staff?
- Under the reforms, you will be required to automatically enrol staff on Day 1, as soon as they are eligible. [**If a waiting period for joining currently applies:** You told me that some of your staff currently have a waiting period before they can join]
 - **Ask all:** What will this mean for you? Distinguish between financial vs. administrative issues.
 - How do you see the process working for your organisation? Who in your organisation would be involved in the process?

H Other options after 2012 (5-10 mins)

- **If employer currently uses a salary sacrifice scheme or flexible benefits package:** You mentioned earlier that you currently operate a salary sacrifice scheme/flexible benefits package for some/all of your staff. Based on everything you have read, do you feel you might make changes to this after 2012?
 - **If yes:** What changes? Why? As a direct result of the requirements or other reasons?
 - **Whether yes or no:** Do you think the reforms will impact on this? Why/why not?
- **Ask all:** Do you think you might introduce any other changes to employee salary or benefits, that we have not yet discussed?
 - **If so:** What changes? Who for? How would this work? When? Why?
- Are you happy with the steps you think you might need to take to enrol employees and process their contributions? Why?
- Are you clear on how the reforms apply to all of your staff? *Any particular exceptions, or examples of staff where the requirements are not clear?* **Probe all examples in depth**
- **If employer does not currently use a salary sacrifice scheme or flexible benefits package:** Might you introduce the changes to your pension scheme as part of a flexible benefits package?
 - **If so:** Who for? How would this work? When? Why?
- Do you anticipate any possible changes to the profile of your staff as a result of the reforms? **If necessary, use Interviewer Checklist.**
 - Why is this? Probe in depth

- **If employer sees current pension as a recruitment/retention tool:** You mentioned earlier that you feel your pension scheme has a positive impact on [recruitment/retention]. Do you think this will still be the case after the reforms?
 - **If necessary:** Will you continue to use pensions as a tool to [recruit/retain] staff? **If yes,** What level of employer contribution do you think will be necessary? **If no,** what alternative approaches might you take?

J Wrap-up (brief)

- Do you think you would make any other changes as a result of the reforms?
- Finally, is there anything else that you would like to tell DWP about how the reforms might affect your organisation? *If necessary: please remember that none of your comments will be attributed to you, or to your organisation*

Permission to re-contact

Occasionally, it is very helpful for us to be able to re-contact people we have spoken to, either to clarify certain issues, or to get a bit more detail where the information we are given is particularly interesting. Would you be happy for us to call you back briefly if necessary?

Incentive details

As you know, we can either send you a £50 Amazon Voucher as a thank-you for your time, or we can donate it to one of three charities.

Record preference

Amazon voucher	1
British Red Cross	2
Great Ormond Street Hospital Charity	3
Cancer Research UK	4

Could I please have an email address, preferably a personal one, to which we can send the [voucher/confirmation of your donation to **charity**]?

Email address _____

We will send this to you within the next 2 working days.

Thank and close.

Please pass back respondent incentive details to the recruitment team immediately.

INTERVIEWER CHECKLIST – SECTIONS A, F & G

Probe specifically for differences by the following:

- Full time vs. part time staff
- Non-permanent/consultancy staff
- Seasonal staff
- Salary
- Gender
- Under 22 years old
- Staff that are approaching SPA (65 for males, 60 for females)
- Staff above that are above SPA
- Length of employment
- Seniority
- Job role
- New staff vs. existing staff

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Webb, C., Pye, J., Jeans, D., Robey, R, and Smith, P. (2008). *Individuals' attitudes and likely reactions to the workplace pension reforms 2007: Report of a quantitative survey*. DWP Research Report No. 550.

<http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep550.pdf>

This report contains findings from qualitative research carried out in 2009 to explore employers' likely treatment of different workers under the workplace pension reforms. The research consisted of face-to-face interviews with 62 private sector employees selected to reflect diversity in terms of employer size, industry, pension provision and geographic location.

The research was carried out on behalf of the Department for Work and Pensions (DWP) by RS Consulting. This research was commissioned as part of a wider programme of research and analysis carried out by the DWP to gather evidence to inform the Government's pension reforms.

If you would like to know more about DWP research, please contact:
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<http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>