Pensions survey 2014: Managing auto-enrolment

The results of our 2014 survey of pensions and auto-enrolment, conducted in January and February 2014. We received responses from 70 organisations, covering 439,929 employees.

Key findings

- Two-thirds of respondents (65.6 per cent) deferred their allotted auto-enrolment staging date by up to three months. One-in-ten (9.8 per cent) brought their staging date forward.
- The majority (83.6 per cent) of respondents auto-enrolled eligible employees into a defined contribution scheme. Defined contribution schemes were much less popular (13.1 per cent), and hybrid schemes were used by just 3.2 per cent of respondents.
- Around a quarter of respondents (24.6 per cent) opened a brand new DC scheme for auto-enrolment, while one in five (21.2 per cent) amended the rules of an existing DC scheme. Well over a third of respondents (37.7 per cent) were able to enrol staff into a qualifying DC scheme without making any changes to the way it operated.
- Group personal pension (GPP) schemes were the most popular choice for DC auto-enrolment among respondents, being used by almost half (47.1 per cent) of employers. Money purchase schemes were the next most common, chosen by a third (33.3 per cent) of respondents, followed by stakeholder plans (13.7 per cent).
- Just over half (51 per cent) of respondents set the minimum employee contribution to their DC scheme at 1 per cent, while a third (33.3 per cent) have also set the minimum employer contribution at 1 per cent. The median minimum employee contribution is 1 per cent, while the median minimum employer contribution is 2 per cent.
- Several (15.7 per cent) respondents limit the employer's maximum contribution to 1 per cent of salary; the median maximum employer contribution across all respondents is 8.5 per cent of basic salary.
- The median matching ratio of employer to employee contributions at the minimum level of employee contributions is 1.5 (ie the employer contributes 1.5 x the employee contribution); this falls to 1.34 at the maximum level of employer contributions.
- The first month opt-out rates across our respondents range from 0 per cent to 46 per cent, with a median opt-out rate of 9 per cent. The opt-out rate shows a marked correlation with the minimum amount that employees are required to pay into the scheme – ranging from a median of 5 per cent for non-contributory schemes to 20 per cent where employees must contribute at least 5 per cent of salary.
- Overall pension membership rates increased following auto-enrolment, from a median of 76 per cent before to 93.5 per cent afterwards.

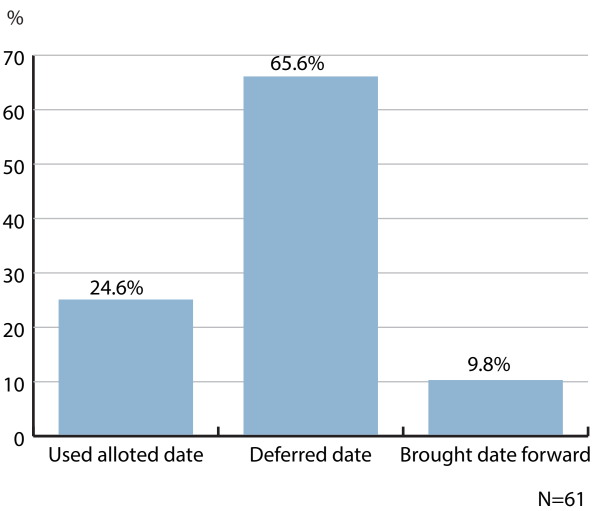
Auto-enrolment staging dates

The duty on employers to automatically enrol all eligible employees into a qualifying pension scheme is being rolled out gradually over a period of several years, starting with the UK's largest employers. The first staging date, which was effective for all organisations employing at least 120,000 people, was 1 October 2012. The final staging dates, for employers with less then 30 staff, stretch from 2016 into 2017. More details on staging dates are available at the Pensions Regulator website.

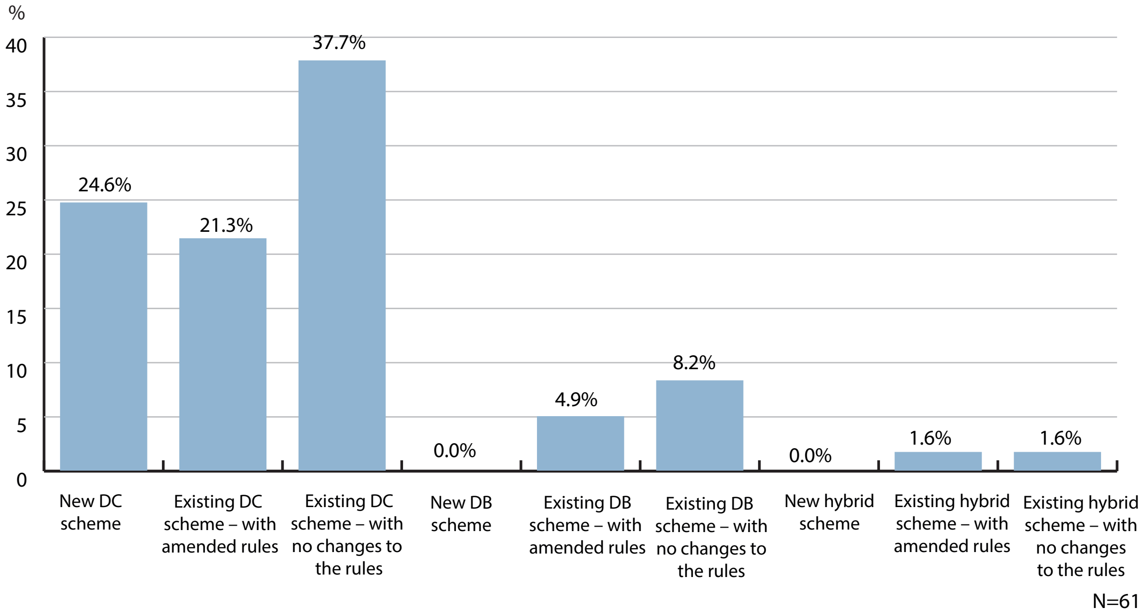
There were 70 respondents to this year's IDS pensions survey, and the majority (87.1 per cent) have already passed their allotted auto-enrolment staging date. Of these, two-thirds (65.6 per cent) opted to defer auto-enrolment by up to three months (the maximum length of deferral allowed under the legislation). Among the reasons given for choosing to defer, the most common was needing more time to prepare or to implement the systems and technology required. Other reasons included: to fall in line with the company's financial year; to align with the company's flexible benefits selection window; and to mitigate the additional cost of employer contributions.

In contrast, one-in-ten (9.8 per cent) respondents chose to bring their staging date forward. This was generally done where employers operated more than one business or had more than one payroll and wished to align them all to a single staging date.

How did you approach your staging date?



Into what type of scheme did you auto-enrol eligible employees?



Type of scheme chosen for auto-enrolment

Employers have some degree of discretion around the type of scheme they wish to use for auto-enrolment, although there are clear criteria on what constitutes a 'qualifying' pension scheme under the legislation. For defined contribution (DC) schemes, these rules focus mainly on contribution rates – while for defined benefit (DB) schemes, the criteria set a benchmark for the benefits an employee stands to receive on retirement. Hybrid schemes, which combine both DC and DB elements, may have to meet one or other of these requirements or a combination of the two. Employers must also decide whether to enrol employees into an existing scheme or to open a brand new scheme. If they choose to use an existing scheme, they must also check that it meets the qualifying criteria – if it does not, they will need to amend the scheme rules.

The majority (83.6 per cent) of our respondents opted to enrol eligible employees into a DC scheme. Around a quarter (24.6 per cent) opened a brand new DC scheme for the purpose, while one in five (21.2 per cent) amended the rules of an existing scheme. Well over a third of respondents (37.7 per cent) were able to enrol staff into a qualifying DC scheme without making any changes to the way it operated.

Of the remainder, fewer than one-in-ten (8.2 per cent) respondents used an existing DB scheme with no changes to the rules; one-in-twenty (4.9 per cent) used an existing DB scheme with amended rules; and just two respondents (3.2 per cent) used an existing hybrid pension scheme for auto-enrolment.

(The low number of respondents that chose to auto-enrol employees into a DB scheme (13.1 per cent) or hybrid scheme (3.2 per cent) makes it difficult to produce any meaningful statistical analysis of these schemes in this report. However, details of any DB or hybrid schemes used for auto-enrolment will be available shortly in each respondent's full pension scheme summary. A link will appear here when these are published.

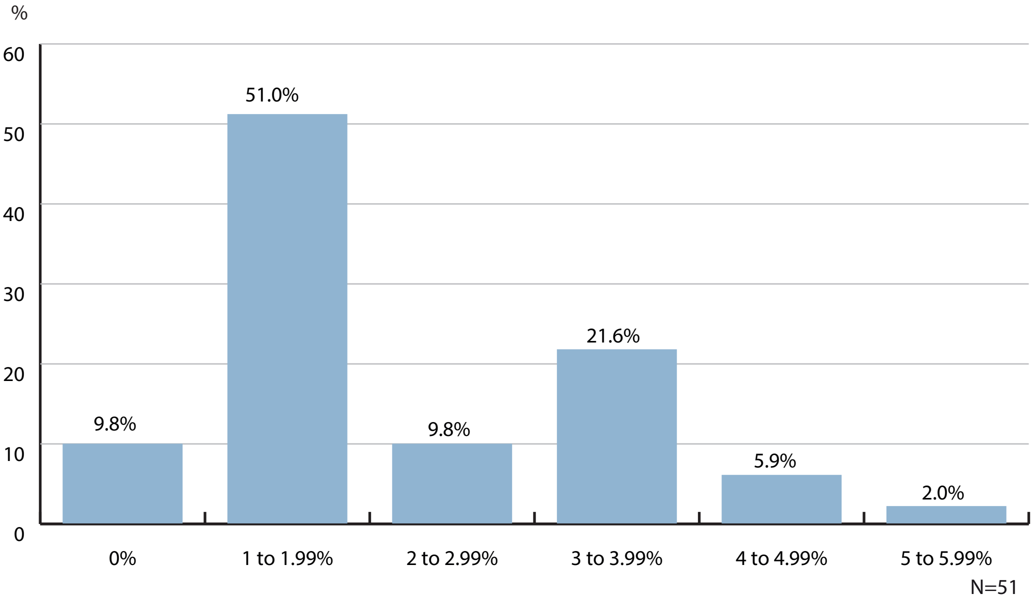
Future auto-enrolment plans

DC schemes are also the most popular choice for auto-enrolment among respondents who have yet to pass their staging date. All of them plan to use a DC scheme when the time comes, with a third (33.3 per cent) planning to use a brand new scheme, a third (33.3 per cent) planning to use an existing scheme with no changes to the rules and a third (33.3 per cent) planning to use an existing scheme with amended rules.

Using defined contribution schemes for auto-enrolment

Several different types of pension plan fall under the DC banner, each with their own set of rules. Group personal pension (GPP) schemes were the most popular choice for auto-enrolment among our respondents, being used by almost half (47.1 per cent)

What is the minimum employee contribution (% of basic salary)



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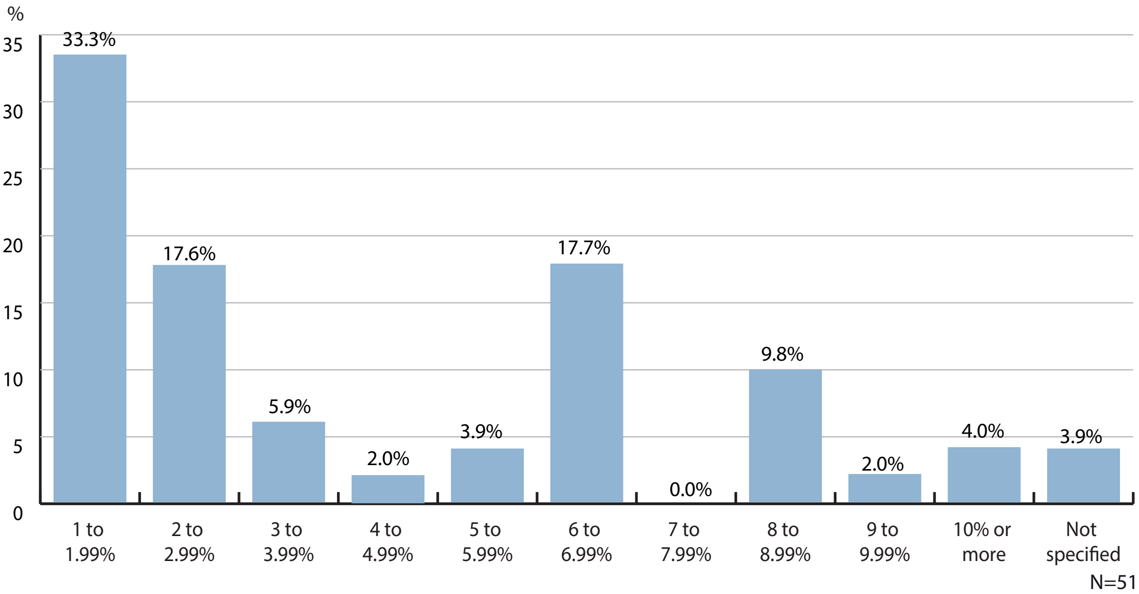


of employers. Money purchase schemes were the next most common, chosen by a third (33.3 per cent) of respondents, followed by stakeholder plans (13.7 per cent).

Minimum contribution rates

To meet the criteria for auto-enrolment, the minimum monthly contributions made to an employee's DC scheme must total 2 per cent with at least 1 per cent contributed by the employer. These minimums rise in October 2017 to a total of 5 per cent and an employer minimum of 2 per cent, and they rise again in October 2018 to a total of 8 per cent with at least 3 per cent coming from the employer.

We asked respondents to tell us the minimum and maximum contribution rates to their schemes, as a percentage of an employee's basic salary. Just over half (51 per cent) have set the minimum employee contribution at 1 per cent, while a third (33.3 per cent) have also set the minimum employer contribution at 1 per cent. The median minimum employee contribution is also 1 per cent, while the median minimum employer contribution is 2 per cent.

Several employers (9.8 per cent) are using non-contributory schemes for auto-enrolment, where the employee is not required to make any contribution at all. In these schemes, the employer will be paying in at least 2 per cent to ensure the scheme meets the

Ratio of employer:employee contributions at the minimum level of employee contribution						
Minimum	Lower quartile	Median	Upper quartile	Maximum	Mean	N
1.00	1.00	1.50	2.00	3.20	1.55	44

Ratio of employer:employee contributions at the maximum level of employee contribution						
Minimum	Lower quartile	Median	Upper quartile	Maximum	Mean	N
0.50	1.00	1.34	2.00	3.00	1.51	42

minimum contribution levels required. At the other extreme, one scheme requires employees to contribute 5 per cent of their basic salary to their DC pension pot (for which the employer contributes 8 per cent).

Maximum contribution rates

Most DC pension schemes operate a system of ‘matching contributions’, whereby the more money an employee contributes to his or her pension pot the more the employer gives. Schemes do not have to offer this type of matching beyond 1 per cent to meet the requirements for auto-enrolment and several (15.7 per cent) of our respondents limit employer contributions at this minimum level. Others are more generous, however, with one scheme offering a maximum employer contribution of 17 per cent. The median maximum employer contribution across all respondents is 8.5 per cent of basic salary.

The contributions employees have to make to receive these maximum figures range from 0 per cent of basic salary, in non-contributory schemes, to 13 per cent. The median is 5 per cent. Looking at the matching ratio of employer to employee contributions for these schemes, the median at the minimum level of employee contributions is 1.5 (ie the employer contributes 1.5 x the employee contribution) falling to 1.34 at the maximum level. The most generous schemes more than triple the contributions made to a scheme by employees.

Salary sacrifice

Allowing employees to make contributions to their pension scheme via salary sacrifice gives both employees and employers the chance to benefit from lower national insurance contributions. As a result, salary sacrifice arrangements are becoming a common feature of most modern pension schemes – and four-in-five (80.4 per cent) of our respondents give employees the option of paying into their auto-enrolment scheme through salary sacrifice. Where this choice is available, on average (median) 95 per cent of employees take advantage of this arrangement.

Opt-out rates and membership

All employees who are auto-enrolled into a pension scheme are given the option to opt out at any point. Staff who opt out within the first month receive a full refund of their contributions – those who opt out after this date stop making further contributions but must keep any funds already committed within their pension pot.

The first month opt-out rates across our respondents range from 0 per cent to 46 per cent, with a median opt-out rate of 9 per cent. Looking more closely, however, the rate shows a marked correlation with the minimum amount that employees are required to pay into the scheme. In non-contributory schemes, for example, the median opt-out rate is just 5 per cent. Where employees have to contribute between 1 and 2 per cent of their salary, the opt-out rate jumps to 8.6 per cent – close to the median for all schemes. Schemes that ask for more than this see even higher opt-out rates, peaking at a median opt-out rate of 20 per cent for the single scheme in our sample that requires employees to pay in at least 5 per cent of salary.

Overall opt-out rates are very similar to those of the first month, which suggests that getting a refund of the first month’s contributions is not the most important factor in an employee’s decision to opt out. Overall opt-out rates range from 0 per cent to 51 per cent, with a median of 8.9 per cent.

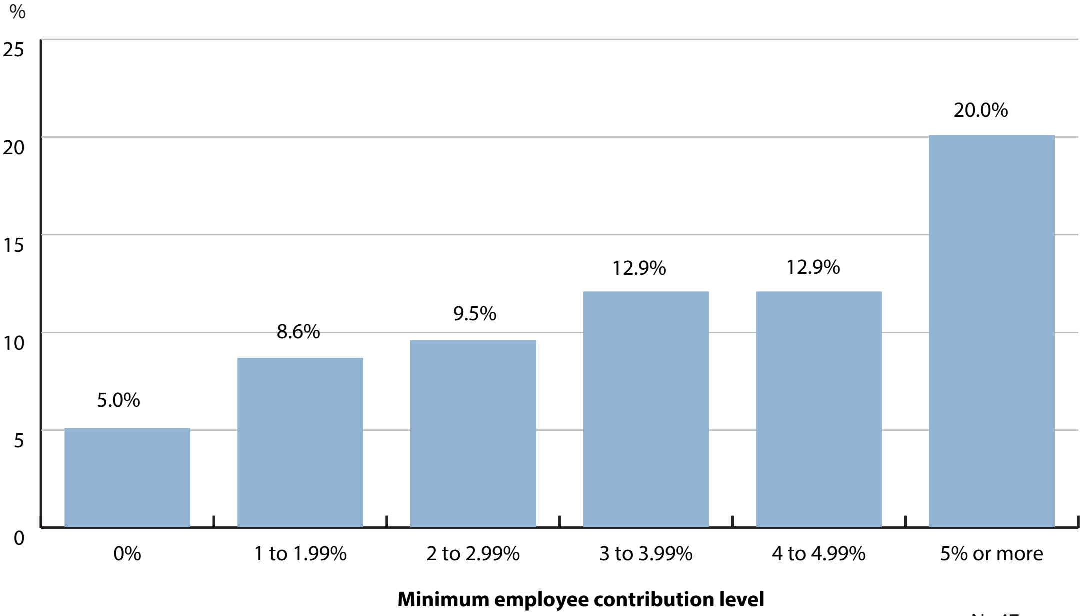
Pension scheme membership rates

The pension scheme membership rates at our respondents suggest that the auto-enrolment legislation has been successful in getting more employees to save towards their retirement. The overall median pension membership rate before auto-enrolment was 76 per cent, while after auto-enrolment this had jumped to 93.5 per cent. Further, while some respondents reported that none of their employees were members of a pension scheme before auto-enrolment, the lowest membership rate after auto-enrolment stands at 25 per cent.

Employers’ opinions on AE

Feedback from our respondents on the auto-enrolment legislation and its implementation was

Median percentage of employees that opted-out in the first month (by minimum employee contribution level)



N=47

mixed. Many were favourable about the aims and principles behind the scheme – for example:

- 'Hopefully it will encourage our employees to save for their future. And by re-enrolling employees every three years it may encourage them to review their situation and their savings.'
- 'It has encouraged our people to consider how they are saving for the long-term. Even those who have opted out now have a clearer idea of what options are available to them.'
- 'Everyone should be looking towards their future financial needs.'

However, some felt that the specified minimum contribution rates were too low:

- '1 per cent employee contributions will not generate a high pension. Our auto-enrolment population is mostly low paid workers who are only contributing £1 or so into their pension each week. The costs of the auto-enrolment pension scheme will outweigh the value of their pension.'
- 'The required minimum levels are still too low to provide a decent retirement.'
- 'It is a very low minimum contribution to start with. We were worried that if we used this, individuals may have thought this was sufficient.'

The majority of criticism was reserved for the implementation and administration processes required. Comments such as 'over-engineered', 'over-complicated' and 'far too complex' cropped up frequently. Other quotes included:

- 'Has placed a significant load and inappropriate burden on employers, both in terms of cost but also in terms of administrative workload. The legislation is complex to administer and to communicate to employees.'
- 'Huge administration and payroll exercise to add a very small number of non-members to our pension scheme.'
- 'Additional administrative burden and cost to the business for little perceived benefit.'

Organisations that already offered good pension schemes with high levels of take-up, especially those where employees were already contractually enrolled, were specifically critical about the inflexibility of the legislation:

- 'We already had a good 'non-qualifying' scheme, but the legislation was so prescriptive we probably had to spend a six-figure sum just to ensure compliance with absolutely no added value to the employees or the business.'
- 'A waste of time for us as we already had 100 per cent take-up of good plans.'

And higher overall pension costs were also a concern for some:

- 'A positive step – but the costs impacted our ability to offer a pay award that matched our employees' aspirations.'
- 'Pushed up company costs and disgruntled employees.'

About the survey

The 2014 IDS survey of pensions and auto-enrolment was conducted in January and February 2014. We received responses from 70 organisations, covering 439,929 employees.

List of respondents

Bartle Bogle Hegarty
BNY Mellon
Bombardier Aerospace Belfast / Short Brothers
Bombardier Transportation UK
BT
Bupa
Carillion
Caterpillar (UK)
Centrica
CMC Markets
Coats
Cobham
Cognizant Technology Solutions UK
ConvaTec
Dairy Crest
Dow Corning
DWF LLP
E.ON UK
easyJet
EDF Energy
f5 networks
FriendsLife
Fujitsu
Fulcrum Group Holdings
Givaudan UK
H&T Pawnbrokers
Hachette UK
Hampshire Hospitals NHS Foundation Trust
Hermes Fund Managers
hibu
Housing 21
Hozelock
Hyndburn Borough Council
Ingenium Archial
Jaguar Land Rover
Kuehne + Nagel
Lands' End Europe
Liberty Global Europe
Liverpool Victoria Friendly Society
Lloyds Banking Group
LV=
Lyreco UK
Mace Group
Mansfield District Council
Marine Harvest (Scotland)
Mars UK
Molson Coors Brewing Company (UK)
Motorola Solutions
NASUWT
NM Rothschild & Sons
Old Mutual Business Services
Oxfam
QVC
RNIB
Sainsbury's
Saint-Gobain
Sapient
Scope
Sellafield
Shop Direct
Spectris
Stafford Borough Council
T-Systems
TCS Limited
Telefonica UK
The Barden Corporation UK
TJX Europe
Transport for London
Tyco Electronics UK
West Midlands Fire Service