

Automatic enrolment

Commentary and analysis: April 2014 – March 2015

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Foreword

Welcome to the third edition of 'Automatic enrolment: Commentary and analysis', where we report on the impact of automatic enrolment and its role in increasing participation in workplace pension schemes.

By March 2015, over 5.2 million workers had been successfully automatically enrolled since the reforms began in 2012, an increase of more than 2.2 million workers from 2014, and 4.2 million from 2013. Automatic enrolment is helping to turn around the decade-long decline in pension provision, with 59% of all employees now active members of a pension scheme, compared with just 47% in 2012. This increase suggests that pension saving is now becoming the norm.

The pensions landscape has been transformed as the majority of people are enrolled into defined contribution (DC) schemes. We have witnessed the growth in master trusts – 94% of employers who chose a trust-based scheme opted for a master trust. We have therefore focused on improving the governance of DC schemes through implementing our code of practice and working with the Institute of Chartered Accountants in England and Wales (ICAEW) to launch the master trust assurance framework.

This report focuses on the operation of automatic enrolment during the 2014-2015 financial year. The data and analysis is primarily based on the information provided to us by employers when they complete their declaration of compliance, and from business advisers who have a key role in supporting employers to maximise compliance with their duties. We also reference casework data and intelligence reports to complete the picture of the key milestones and successes of the past year, and identify forthcoming trends and challenges facing automatic enrolment in the next 12 months.

We aim to educate and enable employers to meet their legal duties; however, as demonstrated in the past year, we will also use our enforcement powers where appropriate. As a result of this approach we continue to see levels of compliance at the top end of expectations.

Despite our achievements, we are mindful of the challenges we have in the next three years. We now expect that significantly more employers will be subject to automatic enrolment duties than originally anticipated, mainly due to an increase in the number of new companies that have started up, and fewer going out of business than was forecast. We have revised the staging profile accordingly, so that it reflects the 1.8 million employers we expect to help through the automatic enrolment process from now until 2018.

Thank you for taking the time to read this report – I hope you find it useful and informative.



Charles Counsell
Executive Director, Automatic Enrolment

Executive summary

Automatic enrolment: results so far

Proportion of UK employees in a workplace pension scheme:



By March 2015 **59.2%** ↑

Total number of UK employees automatically enrolled:



By 2015 **5.2 million**



By 2014 **3 million**



By 2013 **1 million**

35,000 ✓

employers completed their declaration of compliance between April 2014 and March 2015.

| Period | Workforce size | Number enrolled |
|------------|----------------|-----------------|
| 2014-15 | 4.7m | 2m (42%) |
| Cumulative | 20m | 5.2 (26%) |

51.7% of employers who completed the declaration of compliance since 2012 used postponement:

4,590 → **23,704**
Total April 2014 Total March 2015

and **6,752** employers brought their staging date forward.

Awareness, understanding and engagement



letters sent to UK employers about their automatic enrolment duties



unique visitors to our automatic enrolment webpage



employers used our staging date tool



employers used our action plan tool



speaking events conducted across the UK

Small and micro employers

Awareness and understanding at two to four months prior to staging is comparable to large and medium employers at a similar point.

Awareness



Small employers **98%**



Micro employers **94%**

Understanding



Small employers **90%**



Micro employers **88%**

Intermediaries

Awareness of automatic enrolment is nearly universal.

Awareness



Financial advisers **98%**



Payroll admin **97%**



Accountants **97%**



Bookkeepers **94%**

Understanding



Financial advisers **95%**



Payroll admin **89%**

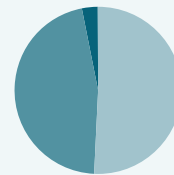
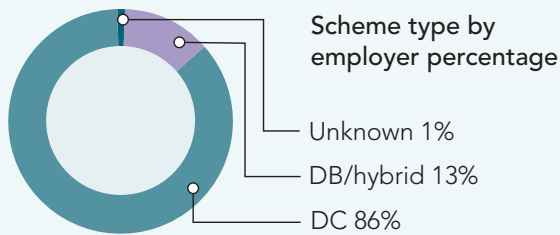


Accountants **85%**

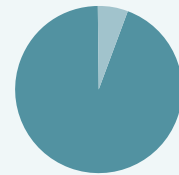


Bookkeepers **78%**

Type of scheme used

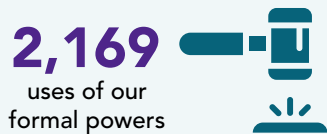


DC scheme split
Master trust 51%
GPP 46%
Other DC trust 3%

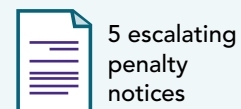
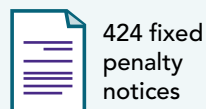
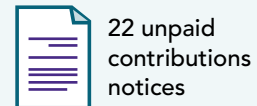


DC trust-based scheme split
Master trust 94%
Other DC trust 6%

Our interventions



We issued:



Forthcoming trends and challenges



employers expected to stage in 2015-16

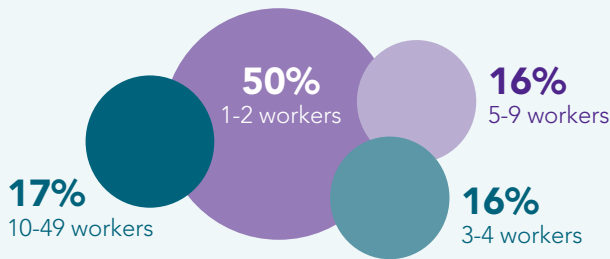
The change in the staging profile means that

500k

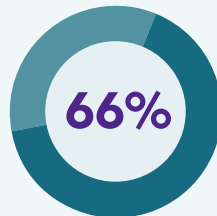


additional small and micro employers are expected to stage.

Sizes of those still to stage:



Of the employers left to stage:



of those left to stage are micro employers (1-4 workers)



46% of the remaining micro employers only have one worker

Introduction

Automatic enrolment

Automatic enrolment began in October 2012, and is being rolled out in a phased approach so that larger employers have had their staging date – which is the date from which an employer’s legal duties begin – before smaller employers. Businesses with over 250 employees had their staging date from 1 October 2012 to 1 February 2014, those with 50 to 249 employees (medium employers) – from 1 April 2014 to 1 April 2015, and small and micro employers began to be subject to their duties from June 2015. New businesses that started up after October 2012 have been given a staging date from 1 May 2017.

Who must be automatically enrolled?

Employers must enrol all eligible jobholders into a qualifying pension scheme and make contributions. This applies to workers aged at least 22 but under state pension age, usually working in the UK and earning more than £10,000 per year (see Table 1), unless they are already a member of a pension scheme that meets certain criteria set out in law. A worker who is automatically enrolled into a scheme has the option to opt out of it within one month if they choose¹.

Contributions are being phased in so that from 1 October 2018 they will increase to 8% of qualifying earnings, of which a minimum of 3% must come from the employer.

Table 1: Categories of worker

| Earnings | Age (inclusive) | | |
|---|------------------------|---------------------|------------------------|
| | 16-21 | 22-SPA ² | SPA-74 |
| Lower earnings threshold or below | Entitled worker | | |
| More than lower earnings threshold up to and including the earnings trigger for automatic enrolment | Non-eligible jobholder | | |
| Over earnings trigger for automatic enrolment | Non-eligible jobholder | Eligible jobholder | Non-eligible jobholder |

¹ More detailed guidance covering every aspect of automatic enrolment is available at www.tpr.gov.uk/detailed-guidance

² State Pension Age.

Employers need to repeat the automatic enrolment process approximately every three years, which is known as re-enrolment. Staff who were automatically enrolled but opted out or ceased active membership more than 12 months before an employer's re-enrolment date must be automatically re-enrolled into the scheme. Again, they have the choice to opt out. This is to allow them to revisit their initial decision to opt out if, for example, their financial situation has changed.

How we educate and enable

Our role is to maximise employer compliance with the law, supported by a policy of education, enablement and enforcement. We aim to help employers understand what they need to do, and by when, primarily through our website but also through a series of targeted direct communications to employers and their advisers, supported by our social media and press work and alongside national advertising campaigns. Our approach is always to educate and enable in the first instance, but where we encounter non-compliance, we will use our powers to ensure that employers comply with their legal obligations.

As the majority of workers are now being automatically enrolled into DC as opposed to defined benefit (DB) pension schemes, (see the chapter 'Pension schemes used for automatic enrolment'), it is important to ensure that pension schemes can demonstrate high quality governance and administrative standards. In May 2014 the voluntary assurance framework for master trust pension schemes was launched by the ICAEW in association with us³. Since then, three large master trusts have achieved the voluntary assurance standard, and several others are currently in the process of getting voluntary assurance.

The Trustee toolkit⁴, our free online learning system for trustees, was overhauled in July of last year to reflect changes in the DC and DB codes of practice. Trustees are required by law to have the appropriate skills, knowledge and competency to carry out the complex and technical tasks involved in running a scheme and protecting the interests of members, and the toolkit is designed to help them do this.

Trends affecting UK pensions

Between the introduction of the reforms in 2012 and April 2014, the overall proportion of employees saving into a workplace pension increased by 12 percentage points (Figure 1) from 47% to 59%⁵. Much of this has come from increases in private sector saving which increased by 17 percentage points (from 32% in 2012 to 49% in 2014), whereas public sector participation increased by 4 percentage points (from 83% to 87%). By the end of March 2015, more than 5.2 million people had been automatically enrolled into a pension scheme.



5.2m

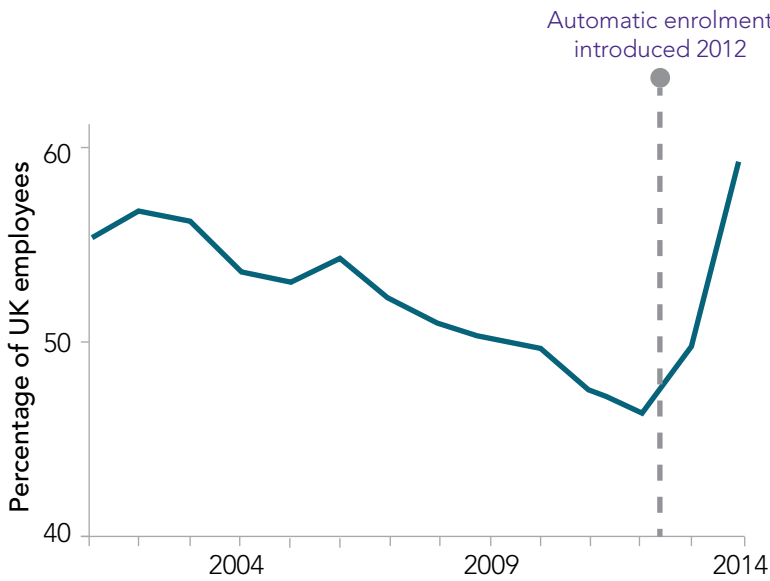
workers
automatically
enrolled by
March 2015

³
www.tpr.gov.uk/dc-master-trusts

⁴
www.trusteetoolkit.com

⁵
2014 Annual survey of hours and earnings (ASHE)
<http://bit.ly/HrsEarn14>

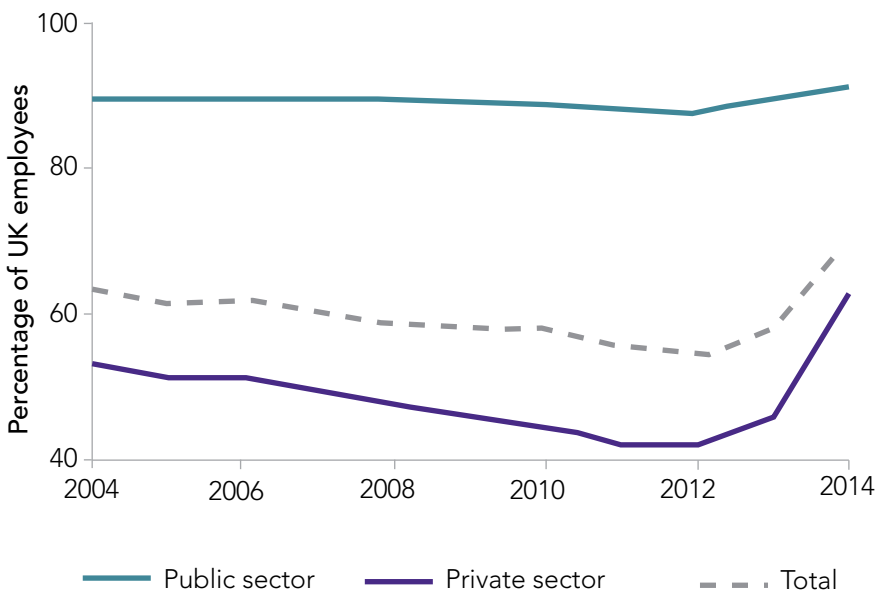
Figure 1: Proportion of all employees belonging to a workplace pension



Source: 2014 Annual survey of hours and earnings – Office of National Statistics (ONS)

New analysis of the 2014 ONS ASHE survey data from the Department for Work and Pensions (DWP)⁶ shows that between 2012 and 2014, 70% (13.9 million) of eligible employees paid into a workplace pension, representing a 15 percentage point increase (Figure 2). Within this period, private sector pension participation among eligible employees rose by 21 percentage points to 63%.

Figure 2: Eligible workers participating in workplace pensions by sector



6 <http://bit.ly/WPPtrends14>

Saving rates among young people in particular have risen as a result of automatic enrolment, with 54% of eligible 22-29 year olds making regular contributions in 2014, more than double the amount in 2012 (24%). Again the biggest increase was seen in the private sector (30% increase).

The analysis also showed that among eligible employees, those earning between £10,000 and £20,000 saw the largest increase in private pension participation, more than doubling from 21% (2012) to 50% (2014).

Implications

The proportion of employees belonging to a workplace pension has grown steadily since the introduction of automatic enrolment in 2012, especially within the private sector, and will increase with the beginning of the roll out to small and micro businesses.

54%

of eligible 22-29 year olds made regular contributions in 2014, more than double the amount in 2012.



Awareness, understanding and engagement

We regularly publish reports⁷ on the awareness and understanding of employers (and the intermediaries on whom they may rely) of their automatic enrolment duties and the means we use to educate and enable them.

The highlights from our most recent survey are:

- ▶ the high levels of awareness (77%) among micro employers due to stage in 2016 and 2017
- ▶ the high level of understanding (89%) among small and micro employers due to stage in June 2015 (as measured two months before their staging date)
- ▶ the significant increase in understanding of automatic enrolment among accountants compared with last year (85% versus 71% in spring 2014)

Analysis suggests that our direct communications are playing an important role in driving these levels, with awareness reaching 83% among micro employers who received a letter reminding them that they are 12 months away from their staging date.

Our activities

Our communications strategy is based around engagement with employers, both directly and through their advisers. Our work in 2014-15 focused on identifying the needs of new audiences, such as employers of carers or those with no eligible jobholders, and finding out which types of communications achieve the best response. We continually review and test our communications approach to ensure our messages are received clearly and that the correct balance between education, enablement and enforcement is struck.

In early 2015, we began a mail-out to over 1.4 million UK small businesses, informing them of their staging date and automatic enrolment duties, and encouraging them to nominate a point of contact with us. This was supported by the creation of an online step-by-step guide, written with the needs (and language) of the small employer in mind. We also engaged in radio and digital advertising, which prompted high levels of recall among the target audience.



Understanding of automatic enrolment among accountants was 85%, up from 71% last year

⁷

www.tpr.gov.uk/research

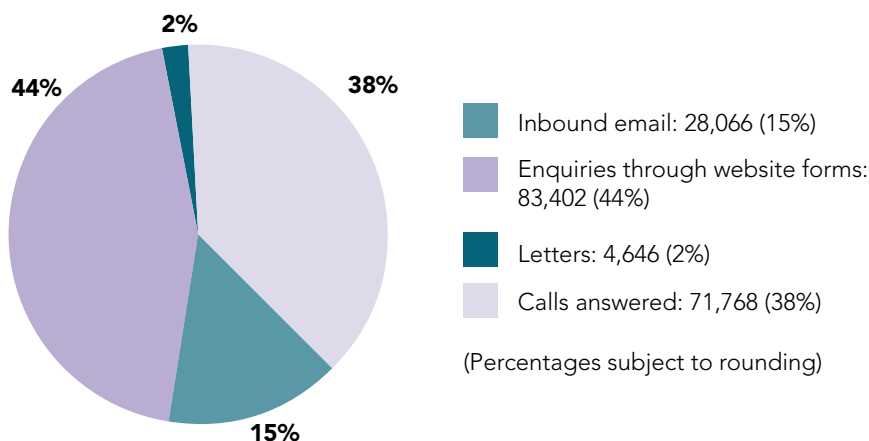
We've reached the adviser audience with a variety of communications channels, including webinars, newsletters, social media, videos, media articles and interviews, and a new online guide which mirrors that of the step-by-step employer guide. We have also engaged intensively with professional bodies representing accountants, bookkeepers, financial advisers and payroll providers.

Our website has been redesigned to provide greater support to small and micro employers, and over the course of the year received over 1.1 million unique visitors to the automatic enrolment page, with more than 664,000 employers using our staging date tool (an increase of 250% on the previous year) and more than 144,000 creating an action plan.

Between 1 April 2014 and 31 March 2015 we received around 190,000 automatic enrolment-related enquiries (Figure 3), including over 83,000 nominations by employers. This is a process by which employers tell us who within the organisation is dealing with automatic enrolment.

● ● ●
We are aware that, as the profile of employers changes, we need more targeted communication.

Figure 3: How customers contact us



We are aware that, as the profile of employers changes, there are significant differences between employer types and that we need to communicate with them in a more targeted way.

While employer duties affect all employers who have eligible workers, we recognise that there is no 'one size fits all' approach to reaching them and we are developing bespoke products for different audiences, such as the 'Essential guide for people who employ their own care and support'⁸, which was published in March 2015.

Employer awareness and understanding

At two to four months before an employer’s staging date

We monitor employers’ awareness and understanding of their automatic enrolment duties via two tracking surveys⁹ which we carry out every six months.

We also assess employer readiness via a monthly staging date tracker for employers who are between two and four months from their staging date¹⁰. Both awareness and understanding of the duties was high among medium employers in this group, with 99% being aware of their duties and the majority (88%) understanding what they need to do.

Table 2: Awareness and understanding among employers, spring 2015 research

| Employer size | Awareness | Understanding |
|--|-----------|---------------|
| Large employers (average over whole group) | 99% | 92% |
| Medium employers (average over whole group) | 99% | 88% |
| Small employers (among those with staging date of June 2015) | 98% | 90% |
| Micro employers (among those with staging date of June 2015) | 94% | 88% |

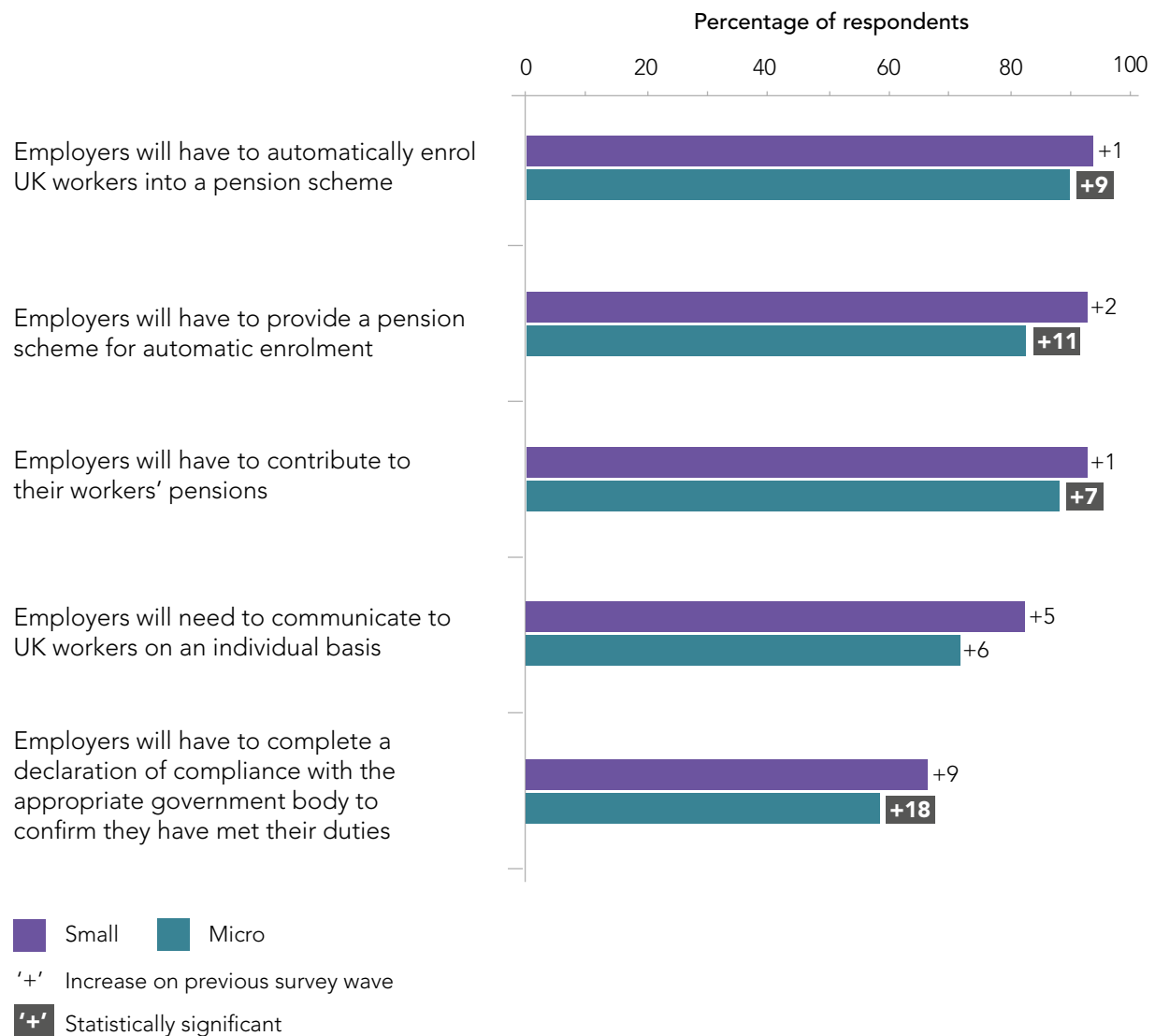
It can be seen from Table 2 that shortly before their respective staging dates, levels of awareness and understanding among the first group of micro and small employers (staging date of June 2015) are comparable to those of large and medium employers surveyed at the same interval before their staging date.

⁹ www.tpr.gov.uk/research

¹⁰ Employers with staging dates up to and including July 2014 were surveyed four months before their staging date. Later groups were interviewed two months before their staging date on the basis that they would usually need less time to implement their automatic enrolment duties.

At approximately six months or more for an employer staging date

Figure 4: Percentage of surveyed employers (small and micro) who understood the statements used to gauge their awareness and understanding in spring 2015



It can be seen from Figure 4 that awareness of each of the five key elements of automatic enrolment increased slightly among both small and micro employers. The greatest increases were among micro employers in relation to the prompt, 'employers will have to provide a pension scheme for automatic enrolment', which rose from 72% in spring 2014 to 83% a year later, and 'employers will have to complete a declaration of compliance with the appropriate government body to confirm they have met their duties', which rose from 41% to 59%.

Awareness of The Pensions Regulator

Consistent with the findings from our previous two tracking surveys, the majority of employers had heard of us; specifically 97% of small employers and 86% of micro employers.

The proportion of small and micro employers saying they know at least 'a little' about us reached its highest ever level among small employers (80%, up 11%) and was unchanged from the last survey for micro employers (58%).

Use of our website

Almost half (45%) of small employers had visited our website to find out about automatic enrolment, with 56% (a rise from 46% previously) saying they were likely to visit/revisit the website in the future. A similar increase was seen among micro employers, with 28% having visited our website, an increase from 18% six months ago. Among those who had used the website, most found it useful, ranging from 92% of small employers to 82% of micro employers.



There was almost universal awareness of automatic enrolment among all types of intermediaries.

Intermediary awareness and understanding

We monitor awareness and understanding of automatic enrolment every six months among key intermediaries who support employers, namely financial advisers, payroll administrators, accountants and bookkeepers.

Table 3: Awareness and understanding among advisers

| | Financial advisers | Payroll admin | Accountants | Bookkeepers |
|---------------|--------------------|---------------|-------------|-------------|
| Awareness | 98% | 97% | 97% | 94% |
| Understanding | 95% | 89% | 85% | 78% |

In our spring 2015 survey there was almost universal (between 94% and 98%) awareness of automatic enrolment among all types of intermediaries.

Levels of understanding of automatic enrolment differed somewhat between the four types of intermediaries, although there were fewer differences than in previous survey waves. Understanding among financial advisers remained almost universal (95%) and among payroll administrators understanding was similarly high to the last wave at 89%. Understanding among accountants and bookkeepers was at its highest level for both audiences (85% and 78% respectively), each increasing steadily over the last three years.

In terms of intermediaries' understanding of the more detailed aspects of automatic enrolment, few changes have occurred since the autumn 2014 wave and knowledge gaps have remained. The majority (80% on average) were aware of the eligibility criteria. Awareness of the earnings criteria was lower (ranging from 39% of bookkeepers to 71% of financial advisers), with only a minority correctly identifying all the types of workers eligible for automatic enrolment¹¹ (ranging from 6% of bookkeepers to 25% of financial advisers).

This wave saw an increase in awareness among accountants (rising by 14% to 60%) and bookkeepers (rising by 21% to 60%) that employers need to submit their declaration of compliance to us, although these levels still lagged behind financial advisers and payroll administrators.

The survey revealed that knowledge levels improved significantly once intermediaries started acting on behalf of clients. Those with a client (or clients) who had already passed their staging date were more knowledgeable on several aspects.

Engagement with automatic enrolment

Use and planned use of intermediaries continues to rise for both small and micro employers, with 68% and 64% respectively planning to use a third party to help them with automatic enrolment. Accountants (31% for small and 38% for micros) and financial advisers (20% and 15%) are the most commonly used intermediaries for both small and micro employers, with 14% of small employers planning to get help directly from their pension provider.

Similarly, an increasing proportion of intermediaries plan to offer automatic enrolment services to their clients. As shown in Table 4 overleaf, around three quarters of payroll providers and financial advisers are already offering to help their clients comply. When taken in conjunction with those who say that they plan to offer such services in the future, it is apparent that a majority of all intermediary types will be involved in providing practical assistance to their clients.



Three quarters of payroll providers and financial advisers are already offering to help their clients comply.

11

These three types of worker are:

- those who have to be automatically enrolled into a workplace pension scheme
- those with rights to opt into a workplace pension scheme
- those with rights to join a pension scheme

Table 4: Intermediaries: automatic enrolment services

| Intermediary | Currently offers AE services to clients | Plans to offer AE services to clients in the future | Total potential service coverage |
|------------------------|---|---|----------------------------------|
| Accountants | 50% | 29% | 79% |
| Payroll administrators | 73% | 20% | 93% |
| Bookkeepers | 31% | 44% | 75% |
| Financial advisers | 78% | 14% | 92% |

Awareness of The Pensions Regulator

Between 89% and 99% of each of the four intermediary groups surveyed reported that they knew at least ‘a little’ about us, the highest figures to date. There was significant increase in the proportion of accountants (from 81% to 92%), bookkeepers (from 79% to 89%) and financial advisers (from 93% to 99%) who said this. Awareness among payroll administrators remained high at 97% (compared to 94% in the last survey).

Use of our website

The majority of all four intermediary types (78% on average) reported that they had visited our website. In the case of accountants and bookkeepers, usage increased significantly since the autumn 2014 survey (rising by 15% to 68% and by 19% to 75% respectively). Among those who had visited the website, there was an increase in the proportion rating the site as very useful among all intermediary types, with financial advisers showing the greatest increase, rising by 18% to 75%.



The majority of intermediaries said they had visited our website.

Engaging with the pensions industry and service providers

Over the past year, our industry liaison team (ILT) has continued to engage with all industry sectors, including pension providers, payroll software, financial advisers, employee benefit consultants, accountants, payroll bureaux and third party providers, to understand the services provided and raise awareness and understanding of their role in supporting employers to comply with their duties. As well as attending meetings with individual provider firms, the ILT undertook around 270 speaking events across the UK during 2014-15.

Market response

Over the last 12 months, providers and advisers have evolved to cater for the needs of the changing market as small employers prepared to meet their duties. Online self-serve solutions have been developed by some of the UK's largest pension providers and payroll providers to offer pension schemes and payroll solutions incorporating automatic enrolment for small and micro employers. Some financial advisers, accountants and payroll bureaux have also joined forces to serve their clients.

Main implications and outcomes in this chapter

Increasing levels of awareness and understanding of automatic enrolment among both employers and intermediaries is encouraging.

This growth in awareness and understanding has coincided with increased use of our website – both among employers and their advisers – and we are constantly refreshing and updating the information on it to make sure that we continue to be an authoritative source of guidance on all aspects of automatic enrolment.

Greater numbers of employers, particularly small and micro employers, are reporting that they expect an intermediary to help them with some aspects of automatic enrolment. Similarly, an increasing number of intermediaries report that they expect to be involved, and are either already helping some clients or are making preparations to do so.

Employers now have more choice when looking for support, from a full implementation service where the provider or adviser will work hand-in-hand with the employer, to online solutions where the employer can keep costs to a minimum. Many employers are not using an adviser at all. While there have been some challenges for providers and advisers over the last 12 months, concerns from some industry commentators about capacity issues have not materialised.



Providers and advisers have evolved to cater for the needs of the changing market as small employers prepared to meet their duties.

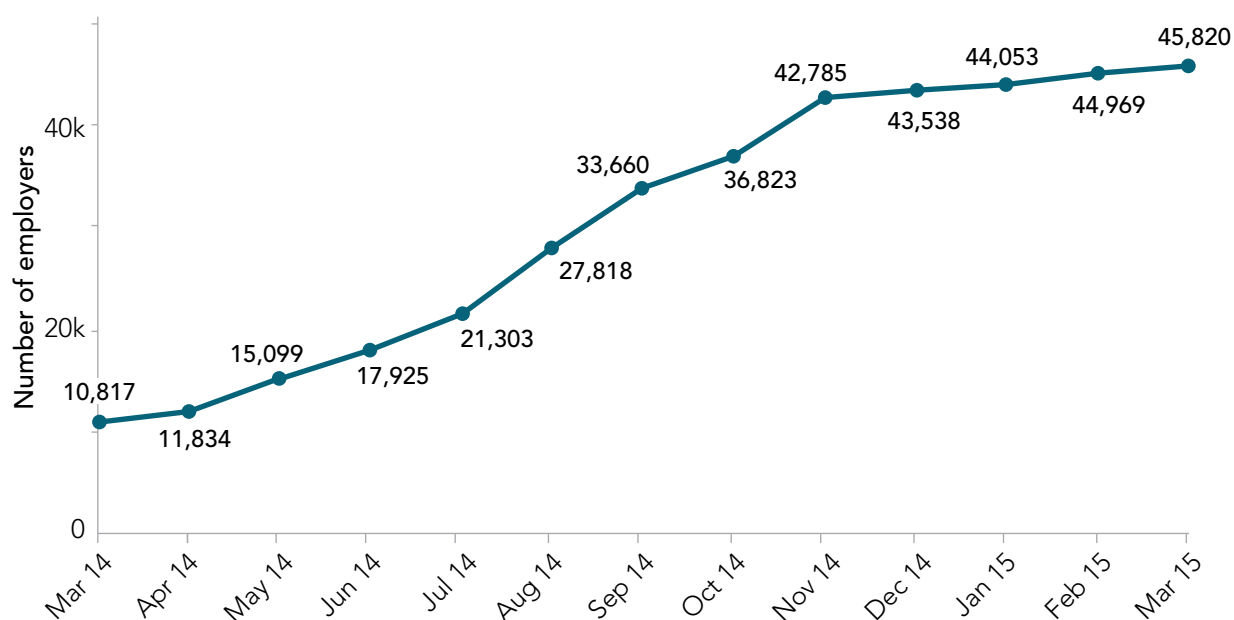
Completed declarations of compliance

Employers confirm to us that they have complied with their automatic enrolment duties by completing the 'declaration of compliance'. This chapter reports on the declaration of compliance process to 31 March 2015. This includes details on the number of employers completing their declaration by month, those who have brought forward their staging date, and those who have chosen to use postponement.

Findings

Employers have up to five months from their staging date to complete their declaration. The number of declarations in the past year (35,003) represents over three quarters of total declarations to date.

Figure 5: Cumulative view (2014-15) of the number of employers who completed the declaration of compliance



Based on the total number of workers reported by employers at the declaration, the cumulative split in the size of employers is large (23.4%), medium (61.3%), small (13.3%) and micro (2%). Of the 45,820 employers who completed their declaration, 6,752 also brought forward their staging date. 56% of these were small or micro employers, based on their workforce data provided at declaration. An employer might bring forward a staging date:

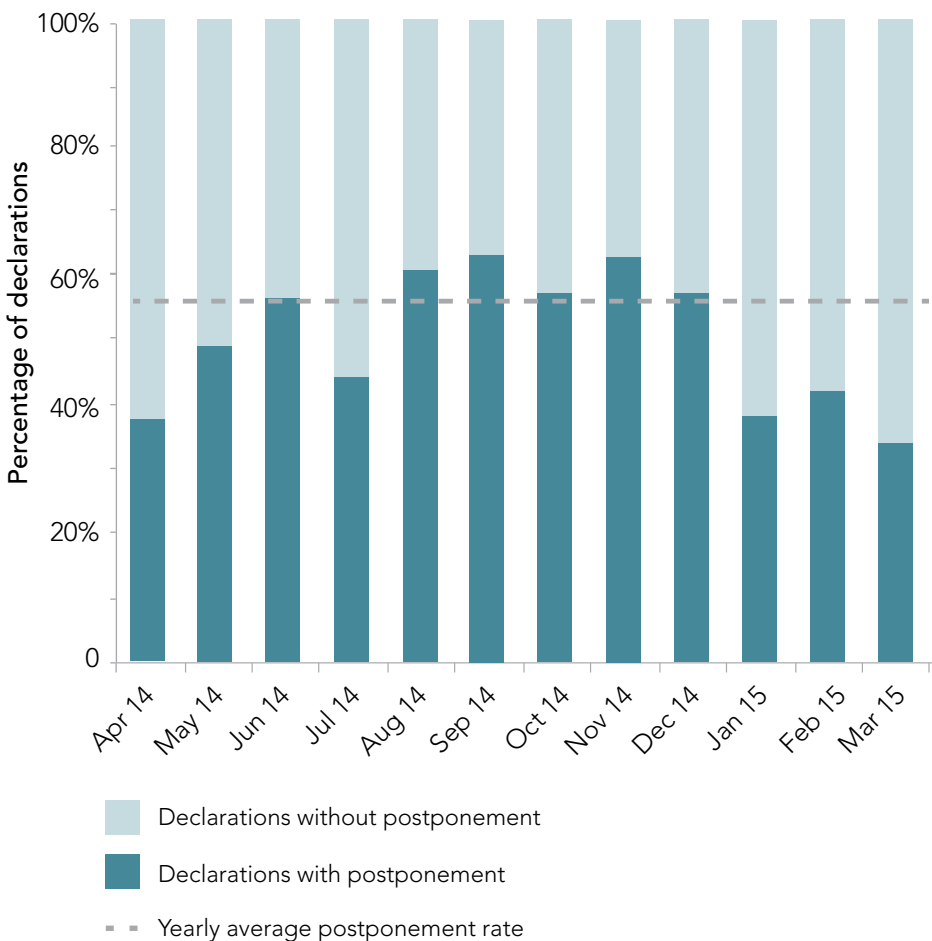
- ▶ if they are affiliated to a larger corporate entity (aligned with the largest PAYE) with an earlier staging date
- ▶ to align with financial reporting requirements
- ▶ to avoid a busy period
- ▶ because they wish to provide a pension scheme for their employees ahead of their staging date

Postponement

Employers can choose to defer the process of assessing their workforce for automatic enrolment purposes for a period of up to three months¹². This doesn't mean postponing their staging date, which is set in law, or the declaration of compliance deadline, which is five months from their staging date.

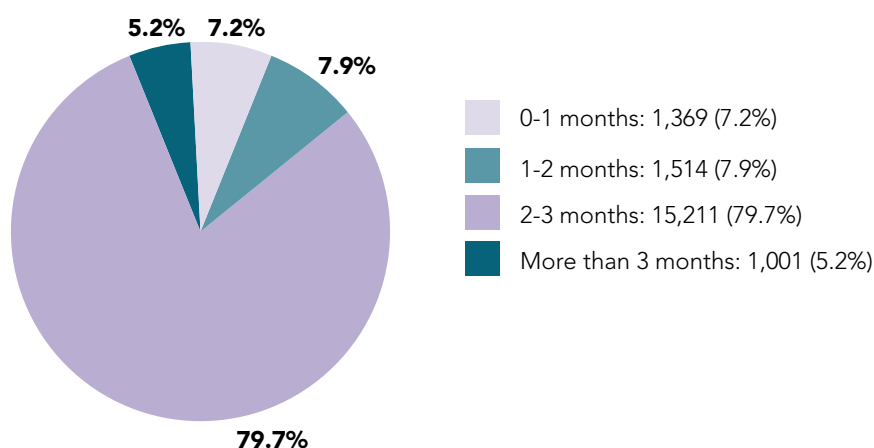
Over the year, approximately half of employers have chosen to use postponement (Figure 6). The majority of these are medium employers as they are the ones who have staged during the year, and when they have used postponement, they have almost all elected to postpone for the full three month period (Figure 7 overleaf). From July 2012 to March 2015, 51.7% (23,704) of employers elected to use postponement. Of these, 19,095 have used it over the past financial year, representing 54.6% of employers declaring their compliance in 2014-15.

Figure 6: Monthly postponement rates



12
 More information can be found at www.tpr.gov.uk/docs/detailed-guidance-3a.pdf.

Figure 7: Length of postponement period used



DB transitional arrangements

Employers with eligible jobholders who are to be put into a DB scheme or the DB section of a hybrid scheme can apply a transitional period to any or all of these jobholders, and may therefore choose to delay automatic enrolment for them to 30 September 2017. 1,222 employers reported that they had these arrangements in place when they completed their declaration, an increase of 381 from the same figure to the end of March 2014. The relative low volume in the period aligns with our assumption that fewer employers will be using DB/hybrid transitional arrangements as we move through the staging profile and as smaller employers stage.

Workforce

Up to the end of March 2015, employers who became subject to the duties reported that their total workforce was over 20 million workers.

Figure 8: Workforce details provided by organisations that completed the declaration of compliance as at end March 2015

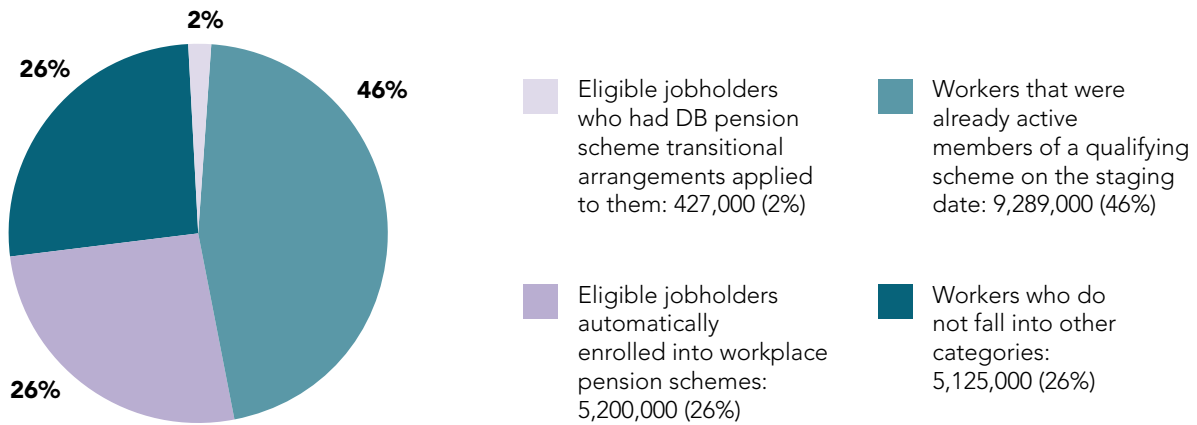
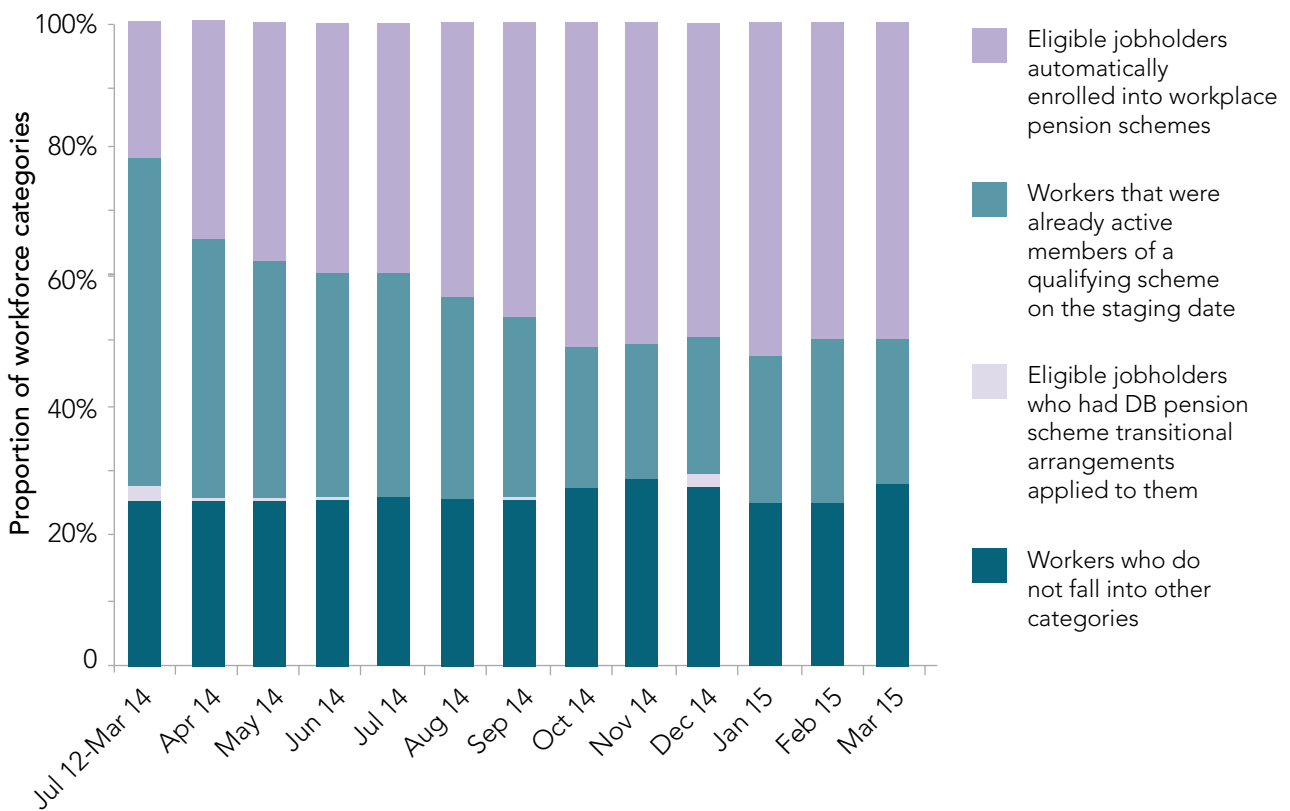


Figure 9: Breakdown of workforce details by month to the end of March 2015



By the end of March 2015, a total of 5.2 million eligible jobholders were automatically enrolled, 74% of which were employed by large organisations, 25% by medium and 1% by small and micro employers.

While the largest proportion of the workforce is employed by large employers, these employers only experienced an increase in pension participation by 20% when they implemented automatic enrolment. By contrast, pension participation of the staff of medium, small and micro employers increased by 60% compared with last year.

The number of workers who didn't fall into any of the other categories (26%) includes, among others, those under 22, over state pension age, not ordinarily working in the UK, and/or earning less than £10,000 per year (see Figure 8).

On a cumulative basis, the largest workforce group remains those who are already active members of qualifying schemes at over 9.25 million, largely due to the larger employers with existing pension provision for their workforce. However, over 2014-15 we have seen this workforce group decrease proportionally as we move through the staging profile to employers with historically lower rates of pension participation (see Figure 9). Over the same period there has been a corresponding increase in the proportion of eligible jobholders who have been automatically enrolled. We expect this trend to continue to rise as smaller employers, yet to stage, are less likely to currently offer a pension scheme.

Over the period shown, the number of workers who don't fall into the above categories remains largely consistent, and the number of eligible jobholders who have had DB or transitional arrangements applied to them is statistically insignificant.

Main implications and outcomes in this chapter

During 2014-15 a significant number of employers used the flexibilities available, including bringing forward their staging date or using postponement to delay automatically enrolling their workers. There was a large increase in employers bringing forward their staging date, and over half of those who did were small and micro employers.

We also saw over half of employers choosing to use postponement, almost all for the full three months. As the employer profile shifts to small and micro employers, we anticipate similar proportions of them will use postponement, but the reasons for this may differ. As part of our educate and enable approach, we will endeavour to make sure that if an employer elects to use postponement, they use it correctly.



↑ 60%

Staff of medium, small and micro employers increased their pension participation by 60% from last year.

Pension schemes used for automatic enrolment

Here we examine the different types of pension schemes used by employers to meet their automatic enrolment duties. Of note are the number of employers using DC schemes for automatic enrolment (86%, compared with 72% the previous year) and the proportion of employees enrolled into DC schemes (89%, up 6% on the previous year).

Of those using a DC scheme, approximately 54% chose a trust-based scheme, and 46% chose a group personal pension (GPP).

Of those who chose to enrol their staff in a DC trust scheme, 94% chose a master trust, up from 51% the previous year. This means that nearly half of all employees enrolled into a DC scheme in this year were enrolled into a master trust.

Schemes used

DC schemes were used by the vast majority of employers (86%), with a relatively even split between trust (46%) and contract (40%). Just 13% used a DB or hybrid scheme, down from 24% in 2013-14. This represents a marked shift from the first commentary and analysis report in 2012-13, when the majority of schemes that employees were automatically enrolled into were DB and hybrid, as most of their employers were large companies or belonged to the public sector, where this type of scheme is more common.

Table 5: Pension scheme types and automatically enrolled eligible jobholders declared by employers as at 31 March 2015

| Scheme type | Scheme types reported in declarations of compliance | | Number of schemes | | Number of eligible jobholders automatically enrolled | |
|-----------------------|---|------------|-------------------|------------|--|------------|
| | Count | Percentage | Count | Percentage | Count | Percentage |
| DB | 4,388 | 10% | 263 | 17% | 310,000 | 6% |
| Hybrid | 1,235 | 3% | 321 | 21% | 245,800 | 5% |
| DC (trust) | 20,231 | 46% | 413 | 27% | 2,779,800 | 53% |
| DC (contract) | 17,353 | 40% | 232 | 15% | 1,832,200 | 35% |
| Unknown ¹³ | 318 | 1% | 294 | 19% | 32,600 | 1% |
| Total | 43,525 | 100% | 1,523 | 100% | 5,200,000 | 100% |

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Scheme type is self-declared. We endeavour to match data where this is incomplete or inconsistent but a small residual number of schemes remained unknown at the time of publication.

Table 6: DC trust-based scheme usage as at 31 March 2015

| | Master trusts | | Non-master trusts | | Total |
|----------------------------|---------------|-----|-------------------|-----|-----------|
| | | | | | |
| Declarations of compliance | 18,964 | 94% | 1,267 | 6% | 20,231 |
| Eligible jobholders split | 2,454,400 | 88% | 325,400 | 12% | 2,779,800 |

Policy changes

The government introduced new regulations in April 2015 which strengthen the minimum legal requirements relating to the governance of DC schemes, including master trusts. Trustees will be required to report annually on how the new governance standards have been met, and confirm compliance with us via the scheme return. In light of this new legislation, we have been revising our DC code of practice, along with the supporting guidance, which will cover charges, governance and new pension flexibilities.

Main implications and outcomes in this chapter

As we anticipated, the trend has been for most employers to choose DC schemes for their staff. We encourage employers to choose large multi-employer schemes such as GPPs or master trusts. We have been focusing on improving the quality of DC schemes through implementing our DC code of practice on governance and administration and launching the voluntary master trust assurance framework with the ICAEW.¹⁴

Our research shows that large pension schemes, including multi-employer schemes such as master trusts and group personal pensions, are better placed to meet the standards we believe are necessary for good outcomes for retirement savers. We have published a list of master trusts that have committed to the assurance framework as it's important that smaller employers, who may not seek advice on choosing a scheme, are given the information they need to make a confident choice.

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www.tpr.gov.uk/master

Compliance and enforcement

In this chapter, we look at the compliance and enforcement activities from 1 April 2014 to 31 March 2015. We show how our approach to education and enablement is supporting compliance among employers.

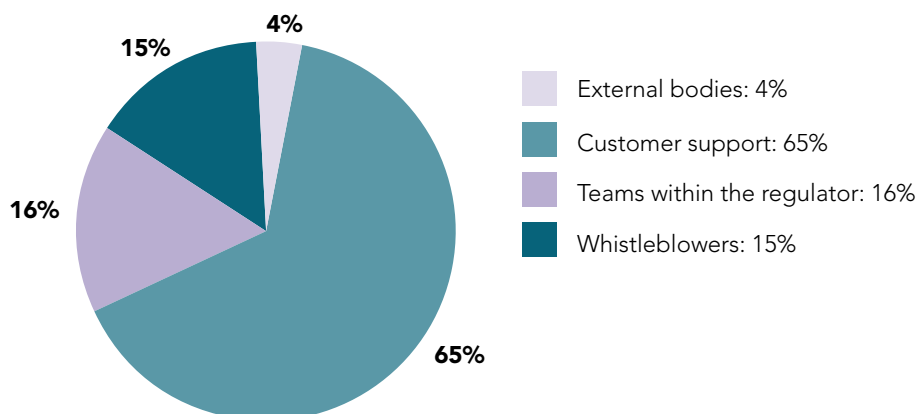
Findings

We operate on the assumption that most employers want to do the right thing by their staff, and we will always try to educate and enable them to ensure they can comply with their duties.¹⁵ Our approach is proportionate and risk-based, and we target our resources where they will be most effective at maximising compliance.

Intelligence

We receive intelligence on possible compliance breaches from a variety of sources, and monitor compliance risks and behaviours among different employer groups. The understanding we gain from this is then used to direct our proactive drives, which we describe in our quarterly compliance and enforcement bulletins.¹⁶

Figure 10: Source of referrals



As we can see from Figure 10, customer support remains the primary intelligence channel for compliance and enforcement activity. The main concerns expressed by whistleblowers are late/missing contributions (45%).

We work collaboratively with other agencies and regulators, sharing intelligence and conducting joint proactive exercises. We also engage closely with intermediaries, including business advisers, payroll bureaux and pension providers, to assist them in helping their employer clients comply with their duties.

15
www.tpr.gov.uk/strategy

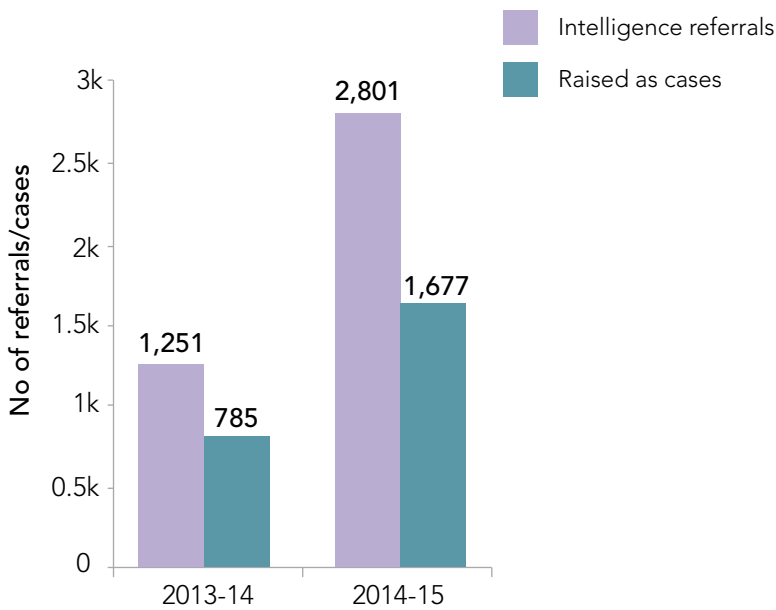
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www.tpr.gov.uk/research

Cases

Where we are alerted to non-compliance or potential non-compliance we take proactive action which starts with contacting the employer and opening a case. The number of cases open does not indicate the number of non-compliant employers as one or more cases may be opened in respect of a particular employer or, on investigation, we may conclude that there is no case to be taken forward.

We have seen a steady increase in the number of intelligence referrals in line with the current staging profile (see Figure 11), and the proportion of referrals raised as cases remains similar compared with 2013-14. We continue to take a proportionate approach to our case interventions to ensure they have the maximum impact in ensuring compliance and protecting member benefits.

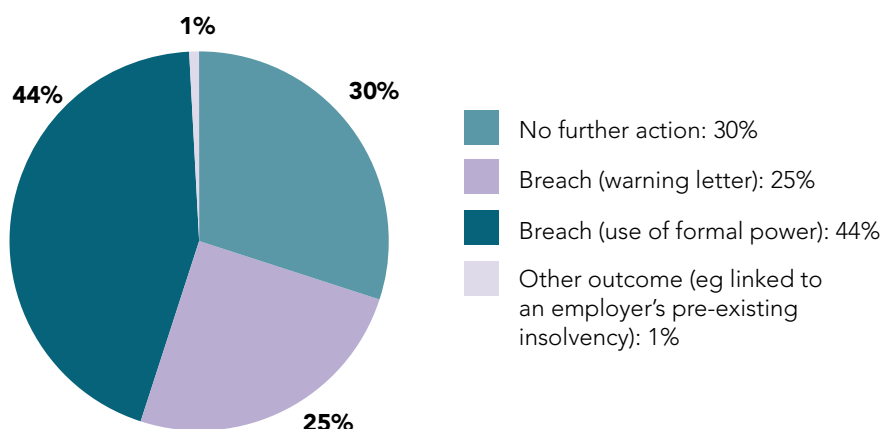
Figure 11: Intelligence referrals converted into cases



Closed cases

During 2014-15, we closed 2,082 cases. In 30% of these, no further actions were required following our initial contact, in 25% we issued a breach warning letter to the employer, and in 44% it was necessary for us to use our formal powers, such as issuing compliance notices, unpaid contributions notices and statutory inspection notices (Figure 12).

Figure 12: Outcome of closed cases April 2014 to March 2015



Use of formal powers

In the year ending March 2015 we used our formal powers on 2,169 occasions. Employers who receive one of our statutory notices have the option to ask for a review of the notice. Over 500 employers have asked for a review to date, and in the majority of cases we have revoked a notice issued, as the vast majority of applicants no longer employ any workers due to their circumstances changing.

Table 7: Formal powers used

| Intervention | Number issued |
|------------------------------|---------------|
| Compliance notices | 1,682 |
| Unpaid contributions notices | 22 |
| Statutory demands | 30 |
| Statutory inspection notices | 6 |
| Fixed penalty notices | 424 |
| Escalating penalty notices | 5 |

Main implications and outcomes in this chapter

As the number of employers staging rises significantly, we expect to see an increase in how often we need to use our statutory powers. This expectation is based on our research among small and micro employers, which shows that these employers are more likely to leave automatic enrolment preparations until closer to their staging date, or indeed until after their staging date, and therefore risk being non-compliant with their duties. We also expect some will fail to engage with their duties and it will take a nudge from us through a compliance notice or fixed penalty notice to encourage them to act. We continue to recommend that employers prepare early and we will take action against those who fail to carry out their automatic enrolment duties in respect of their workers.

We expect employers to note that we are prepared to use our powers when we need to, and that this encourages others to follow our guidance and to prepare in good time. We will, of course, continue to scale up our operations and take appropriate enforcement action as more employers stage.



We continue to recommend that employers prepare early and we will take action against those who fail to carry out their duties.

Eligible jobholders choosing to opt out

This chapter reports some of the key findings from research by the DWP into opt-outs. Thus far, the overall opt-out rate has been around one in ten.

Opt-out

Automatic enrolment aims to increase the number of individuals newly saving and saving more. The policy recognises that circumstances vary and that the ultimate decision on how to save for retirement rests with the individual.

Therefore, employees have the freedom to leave an automatic enrolment scheme if they wish. If they leave within one month of being automatically enrolled, this is referred to as opting out. If they leave a scheme following this one month window, it is referred to as ceasing active membership and they will not automatically receive a refund of any contributions.

The key data source measuring opt-outs is the 'Employers' Pension Provision survey (EPP) 2013'¹⁷, a quantitative survey of 3,000 employers. This has been supplemented by qualitative research with large employers who staged in 2012-13¹⁸ and with employers staging in 2014¹⁹. These two pieces of research each studied a sample of 50 employers and provided insights into the challenges and costs of implementation to employers, opt-out rates and factors influencing opt-out and the motivations behind individual workers' choice to opt out.

Opt-out rates

EPP 2013 found that the average opt-out rate across employers who had staged was 9-10%. As a result the DWP revised its overall opt-out forecast from 30% to 15% for the lifetime of the automatic enrolment programme. EPP 2015 is currently in the field and key findings will be reported in autumn 2015.

The DWP's qualitative research with employers who staged in 2014 used a sample of 50 employers and 100 workers who had opted out. It found that these employers had an average opt-out rate of 12%, within a range of 5-15%²⁰. Cessation of active membership tended to add to this 12% opt-out rate by around two percentage points.

17
Employers Pension
Provision survey 2013:
<http://bit.ly/EPP2013>

18
'Automatic enrolment:
Qualitative research with
large employers'.
<http://bit.ly/QRlarge>

19
'Automatic enrolment:
Qualitative research
with employers staging
in 2014: <http://bit.ly/QRstage14>

20
As footnote 19.

Opt-ins, where those not eligible for automatic enrolment can choose to join the automatic enrolment scheme, represented around 1% of the total workforce in this study. It is important to note that the figure of 12% does not represent a real increase in opt-out; as this study was not a representative sample of employers, it is treated as an indicative figure which suggests that opt-out is consistent with the figure from EPP 2013 at around one in ten.

Influencing factors and reasons for workers opting out

The research identified a number of factors influencing opt-out levels. These were primarily employee age and whether they worked full-time or part-time. Workers' reasons for opting out tended to relate to their financial situation, such as:

- ▶ being concerned about the affordability of contributions
- ▶ satisfaction with pre-existing pension provision
- ▶ feeling that they were too close to retirement to begin saving into a pension
- ▶ feeling that the overall contribution rate was too low
- ▶ plans to leave their employer soon
- ▶ having concerns about pensions as a vehicle for saving

Workers who were satisfied with their existing provision tended to be aged over 50 years old. In addition, workers aged over 50 often felt that they were too close to retirement to begin saving into a new pension.



Workers' reasons for opting out tended to relate to their financial situation.

Forthcoming trends and challenges

New staging profile

In this chapter we discuss the revised staging profile and consider the changing needs of those yet to comply with their duties.

Figure 13: Current staging profile compared against the revised profile

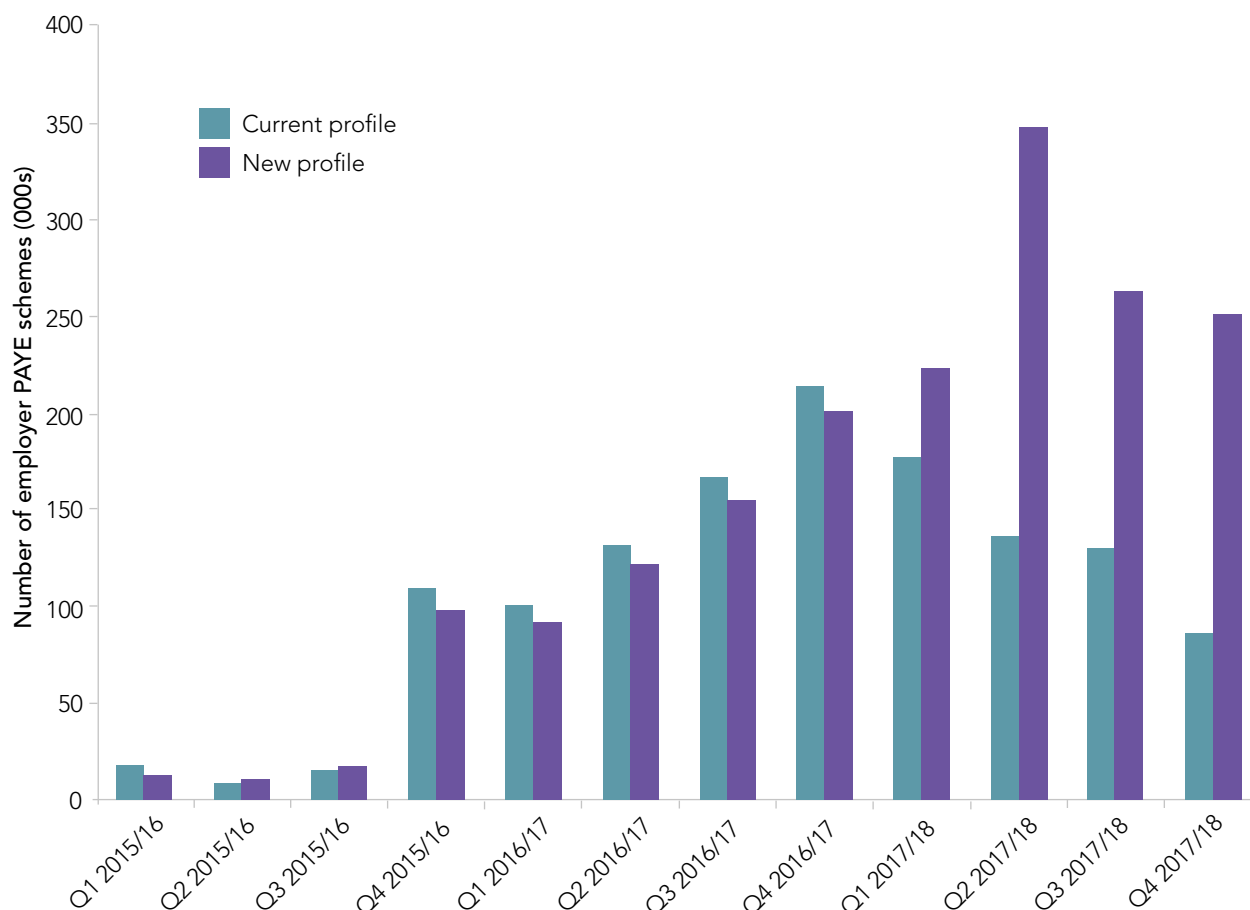
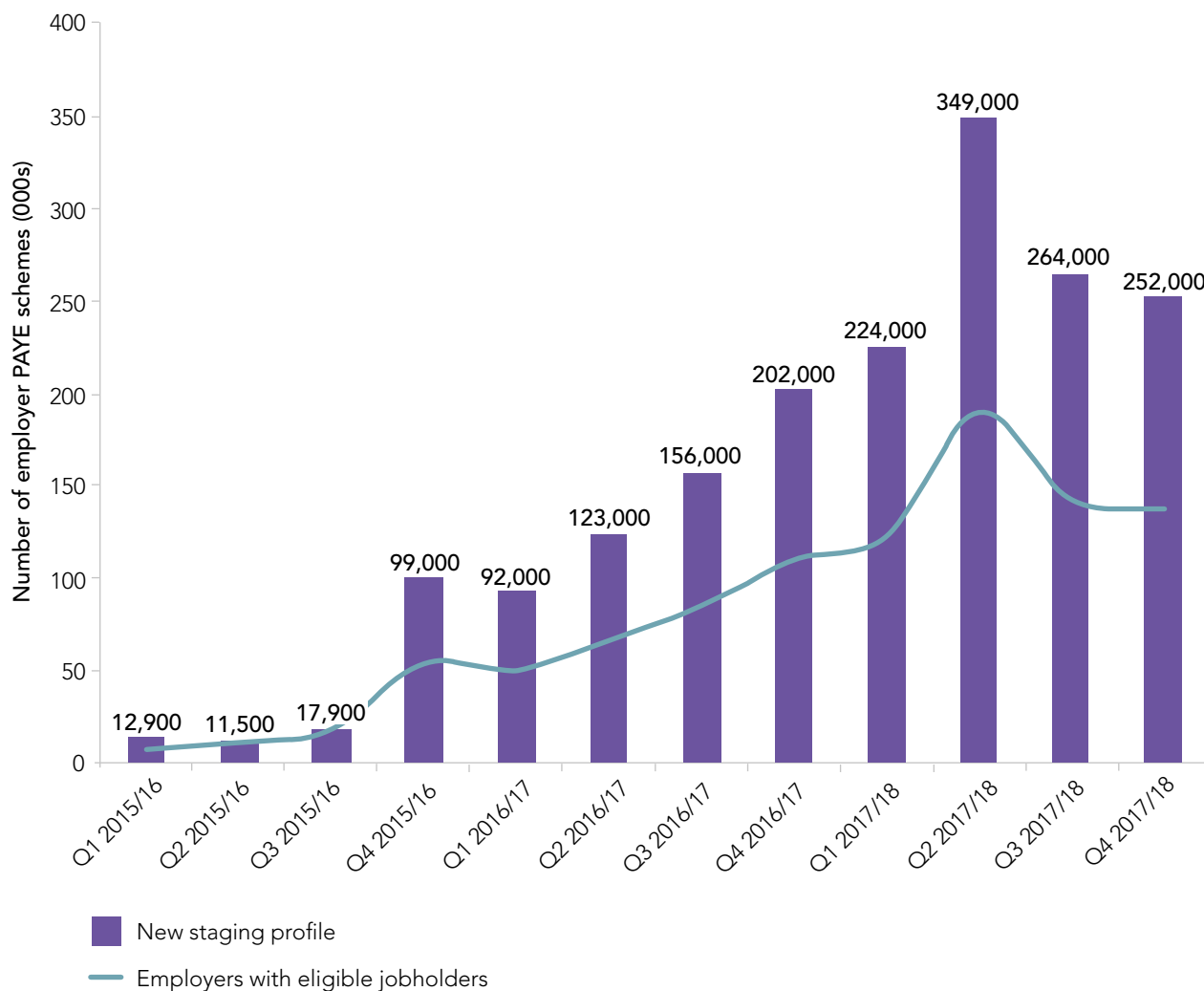


Figure 13 compares the current quarterly view of the staging profile (April 2012) against our new revised profile. This revised profile has been produced as a result of our analysis of three years' worth of operational data, relating in particular to new businesses coming into existence, combined with joint analysis of ONS employer survival rate data.

Overall the new staging profile assumes higher employer volumes. This is primarily due to an increase in the number of new businesses that have started up and fewer employers going out of business than originally forecast. The main result of these changed assumptions is that we anticipate the total number of employers due to stage will increase by approximately 500,000 to 1.8 million, with the number of employers staging peaking between July and September 2017 rather than between January and March 2017 (see Figure 14 overleaf). This may have an impact on pension providers and business advisers as they will need to adjust their plans for higher volumes of clients requiring their services.

Figure 14: New staging profile and employers subject to full duties



Based on age and earnings data from HMRC, we estimate that 65% of employers yet to stage will have full automatic enrolment duties.²¹ Around 35% don't have eligible jobholders. These employers will still be subject to duties such as needing to provide information to their staff and declaring their compliance with us. They may also need to provide a scheme for staff to join or opt into as well as enrolling any future workers who are eligible, or existing ones that later trigger eligibility (for instance, when a 21 year old becomes 22).

The majority of employers left to stage (66%) will be micro employers (employing 1-4 people), and of these, nearly half (46%) will employ just one person. We will tailor our guidance for this particular audience, including the development of a series of customised steps on our website that they can follow based on their duties.

²¹ These figures are based on yearly HMRC earnings and age data. A worker can become an eligible jobholder in a relevant pay reference period. For most workers a pay reference period is less than a year.

Figure 15: Breakdown of employers due to stage by size

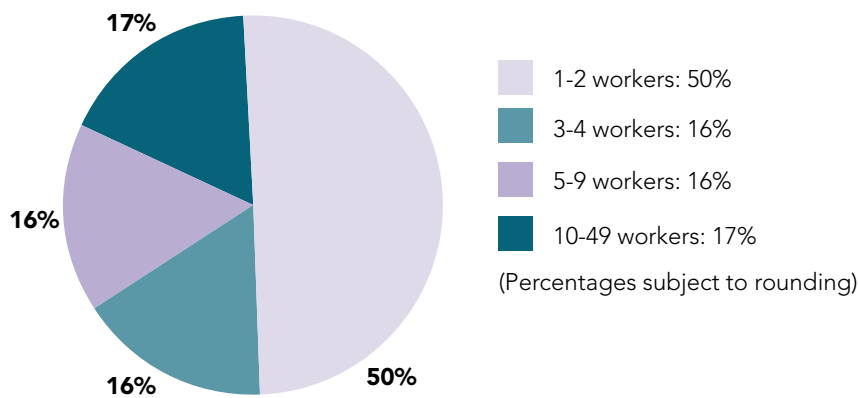


Figure 15 shows that of those employers currently known to us who are yet to stage, over a half of these are 'micro micro' employers, having only one or two members of staff. A further 16% employ three to four workers, meaning that the vast majority of employers will look very different, and have very different requirements, from those that staged in 2014-15.

Our focus over the next 12 months

In the coming year, we will be focusing our attention on educating and enabling small and micro employers to comply with their automatic enrolment duties, as well as overseeing the first group of large employers through the re-enrolment process. We will do this by:

- ▶ continuing to refine our communications for micro employers, ensuring all our information tools are as simple as possible, are easy to use and accessible for this audience. We will adapt our website, send direct communications, engage with them via a variety of social media tools and promote our messages via a national advertising campaign
- ▶ providing a simple steps process which will allow small and micro employers to quickly and easily identify their specific duties according to their circumstances. They will then be presented with a tailored online and offline journey, based upon their duties
- ▶ engaging with the advisers that employers will be relying on for support in complying with their duties. We will also be working closely with the professional bodies who represent employers and intermediaries, to help us disseminate information and guidance
- ▶ adapting our materials for groups of employers with particular information and communication requirements. (In early 2015 we published an essential guide to automatic enrolment for individuals who employ their own care and support, and we will produce tailored communications for other specific audiences where required)
- ▶ targeting specific industry sectors that we've identified are at greatest risk of non-compliance, such as the construction, hospitality and retail sectors
- ▶ helping to ensure that the DC trust-based schemes that an increasing number of workers will be automatically enrolled into are well governed and administered
- ▶ communicating with large employers about their re-enrolment duties



In 2015-16 we will be focusing our attention on educating and enabling small and micro employers.

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Automatic enrolment

Commentary and analysis: April 2014 – March 2015

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