Pensions automatic enrolment

Submission to the Work and Pensions Select Committee

Chartered Institute of Personnel and Development (CIPD)

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Background

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Our membership base is wide, with 60% of our members working in private sector services and manufacturing, 33% working in the public sector and 7% in the not-for-profit sector. In addition, 76% of the FTSE 100 companies have CIPD members at director level.

Public policy at the CIPD draws on our extensive research and thought leadership, practical advice and guidance, along with the experience and expertise of our diverse membership, to inform and shape debate, government policy and legislation for the benefit of employees and employers, to improve best practice in the workplace, to promote high standards of work and to represent the interests of our members at the highest level.

Our response

For our members, workplace pension schemes are an important part of both their employee wellbeing and talent management strategies. Any proposals to change how pensions in general, and Defined Contribution (DC) pensions in particular, operate will have a significant impact on the value of such schemes in recruiting, retaining, developing, deploying and exiting staff, as well as on the work opportunities sought by older employees. Any changes to workplace pension procedures and outcomes will affect how employees perceive the value of saving for their own retirement.

Given their responsibility, our members are uniquely placed to understand why employees contribute what they do and how they respond to various pension messages and education.

Please see below our submission addressing the following points.

Executive summary

If we want to encourage more employees to join a pension and save for their retirement, we need to:

- offer tax advantages and employer matches so as to overcome the tendency of employees to focus on current consumption at the expense of future consumption, and discount the value of deferred reward. Any reductions in these tax advantages will result in a drop in pension saving
- give pension savers security that they will be better-off than those who decide not to join a company plan, and that the rules under which they save do not change on a regular basis
- ensure that pension scheme members are treated fairly and protected from people wishing to exploit them
- encourage employers to boost employee performance because, the more productivity is improved, then the more organisations will be able to increase both their own pension contributions and increase salaries, which will then allow employees to raise their own contributions. This doesn't mean people working harder, but working smarter, through improving the design of organisations, work and jobs.

The data cited in this response is taken from the CIPD's forthcoming Employee Outlook: Winter 2015/16, focusing on employee attitudes to pay and pensions, and the CIPD Labour Market Outlook: Winter 2015/16, both due for publication later this month. If you would a copy of this research, please contact Paddy Smith, Public Affairs Officer, on p.smith@cipd.co.uk

For more information on productivity please see the following CIPD reports - *Productivity: getting the best out of people*, June 2015; and *Investing in productivity: unlocking ambition*, September 2015

The effectiveness of the automatic enrolment process and lessons learnt so far

To date, automatic pension enrolment has been successful in getting more employees into a workplace retirement scheme. Based on a survey of over 2,000 employees, the CIPD estimates that by December 2015, 66% of them were saving through an employer pension scheme. By contrast, in 2010, we found that just 45% of employees were saving at work through a pension.

If we exclude all those who are currently not eligible to be automatically enrolled because their salary is less than £10,000 a year, we estimate that the proportion in a pension plan is even higher at 74%. Of those employees now in a scheme, 55% have been automatically enrolled, while 38% have had to make a conscious effort to join. The rest could not recall.

Pension membership varies by sector (57% of private sector employees are in) and by pension plan type (69% of public sector respondents are defined benefit pension scheme members). By age, we estimate those aged 18–24 are less likely to be in a pension (36%), and those aged 35–44 are more likely to be in a scheme (77%).

By region, Welsh-based workers are less likely (59%) to be in a workplace pension plan while those in the north-east of England are more likely (84%). Pension membership is associated with higher pay: while 44% of those being paid between £10,001 and £13,600 a year are not in a plan, just 11% earning more than £49,000 are not saving.

Women (36%) are more likely not to be in a company plan than men (31%), though this could be due to more women being in part-time employment and in low-paid work than men.

Membership is linked to educational attainment, just 51% of those with no formal qualifications are in a company pension scheme while 78% of those with a first degree and 88% of those with a higher degree are members. However, by family background, those whose parent were well-off are less likely to be a member of a pension scheme (66%) than those whose parents were not well off (74%).

If we look at automatic enrolment from the employer's perspective, looking at the findings from a survey of over 1,000 organisations, we find that most of our members work for employers that have either enrolled eligible workers into a workplace pension (66%), or are in the process of doing so (15%). Those that have not consist of micro- and small-employers. Of those that have enrolled, or are doing so, the most common approach (61%) is to place employees into a DC scheme, especially in the private sector, 71%.

The impact of automatic enrolment on smaller employers and how they plan to mitigate any negative effects

According to our research, 30% of employers say that there have been no additional, or only minimal extra, costs due to automatic enrolment. By size, large employers have been slightly less likely to notice an impact (31%) than small and medium-sized employers (29%). Among the 70% who have seen their cost base increase, the most common responses are shown in Table 1.

While our research on the implementation of the National Living Wage shows that 30% of organisations plan to pay for the increase through productivity gains, just 12% of employers have adopted this approach so far to deal with the additional costs from auto-enrolment. Those that have are typically larger employers, or those operating in the retail and transport sectors.

When we compare the responses from those small and medium-sized employers (SMEs) that have already gone through automatic enrolment (67%) with those of large organisations we find that SMEs have been more likely to cope with the cost by accepting lower profits, just paying the minimum contributions required and reducing or stopping wage growth. More detail concerning how differently sized SMEs have been responding can be seen in Table 2.

We can assume that, as automatic enrolment is rolled out to more micro and small employers, more of them will adopt these approaches.

Table 1: How employers are responding to the additional costs from automatic pension enrolment, by employer size (%)

	Employer size		
Employer responses	All	Large	SMEs
Taking lower profits/absorbing costs	21	16	32
Just paying the statutory minimum pension contributions for automatically enrolled staff	15	13	18
Improving efficiency/raising productivity	12	14	8
Reducing or stopping wage growth	10	8	14
Reducing other elements of pay (such as bonuses, overtime rates, and so on)	10	10	9
Passing on the extra costs through higher prices	8	8	7

Source: CIPD winter 2015–16 Labour Market Outlook

Table 2: How SME employers are responding to the additional costs from automatic pension enrolment, by employer size (%)

	Employer size (Nos. of employees)			
Employer responses	2-9	10-49	50-99	100-249
Taking lower profits/absorbing costs	35	30	35	30
Just paying the statutory minimum pension contributions for automatically enrolled staff	15	22	14	19
Improving efficiency/raising productivity	5	9	6	11
Reducing or stopping wage growth	14	10	13	19
Reducing other elements of pay (such as bonuses, overtime rates, and so on)	9	9	9	12
Passing on the extra costs through higher prices	4	12	3	7

Source: CIPD winter 2015–16 Labour Market Outlook

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The suitability of the auto-enrolment earnings threshold and minimum contribution rates

CIPD research indicates that 58% of workers enrolled into a pension scheme have not noticed any change in how much they spend and how much they save. A further 15% say that they have not changed their consumption or spending patterns as their pay has increased. Among those that do report an adjustment, 16% say they have reduced their spending, while 9% have cut back on their non-pension saving. By income group, those earning less than £22,500 have been more likely to rein in on their spending (28%).

We would predict that any reduction in the auto-enrolment threshold would result in those low earners finding themselves in a scheme either reducing their spending or opting out of the pension. We acknowledge that the introduction of the National Living Wage will boost the pay of many in low-waged occupations, but we will not know what the impact of this measure has been on pension saving for at least 18 months.

Similarly, the impact on opt-out rates if minimum employee contribution rates are increased above what is required will depend on what is happening to real earnings. If employee real pay does not increase significantly, it will be hard to raise employee pension contributions.

Increasing the minimum employer contribution rates above what is currently legally required will be challenging in the current economic climate, especially for SMEs in certain sectors. We predict that such a measure would result in many SMEs responding in one of three ways, namely: accepting lower profits; cutting back on other elements of the reward package, such as salary growth, bonuses or benefits; or doing both.

One way that some organisations have been able to grow the amount of money that employees pay in is by offering to increase the contributions they make to an employee's pension if the employee boosts their own contribution. For example, a firm may enrol its eligible jobholders into the company pension scheme with a 4% salary contribution from the employee, while the employer makes a 6% contribution. However, if the member increases their contribution from 4% to 5%, then under the scheme the firm will increase its contribution from 6% to 8% and if a worker ups their contribution to 6% then the company will increase its contribution to 10%. Such systems usually have a maximum amount that the employer may contribute, such as 12%.

According to our research, 37% of employees work for an employer that offers such an arrangement. These plans are more common for employees working in the private (51%) and voluntary (41%) sectors and covered by DC plans (55%).

Do employees respond to such an incentive? Yes – 66% report that it does encourage them to pay in more, while 27% report that it makes no difference. Among the 66%, 41% say that they make the maximum contribution to get the highest employer contribution possible, while a further 25% contribute somewhere above the minimum (5%) but below the maximum (6%), with the remainder (14%) contributing at the mid-point between the two. We are concerned that changing the way that contributions are taxed could reduce the appeal of such schemes to both employees and employers.

The interaction between automatic-enrolment and other pensions reforms, including the new state pension and pension freedom

CIPD research indicates that most employees predict that the age at which workers will be able to receive the state pension will increase from 66 to 68 by 2030 and by another two years between 2030 and 2040. Therefore, those that wish to retire, or semi-retire, from paid employment before those ages will need to save for a pension to help tide them over until they get the state pension.

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