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Automatic Enrolment evaluation report 2016

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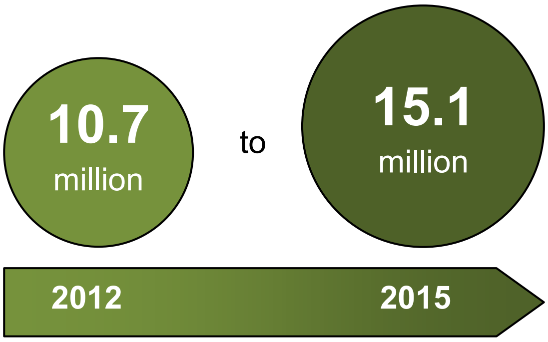
Automatic enrolment progress[1]

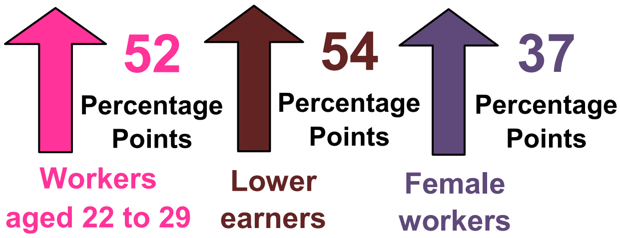
6.87 million workers have been automatically enrolled, with **265,000** workers having been automatically re-enrolled

293,868 employers have declared compliance with their automatic enrolment duties, with **4,713** employers completing their re-declaration of compliance

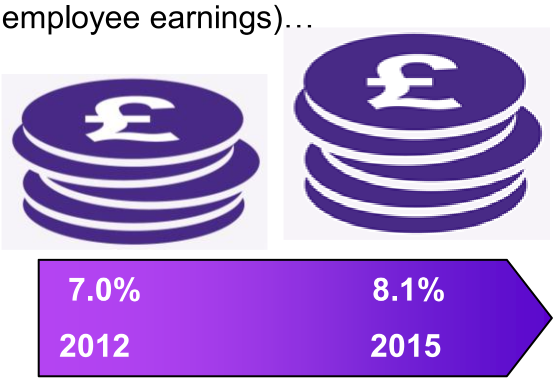
Workplace pension membership is up:



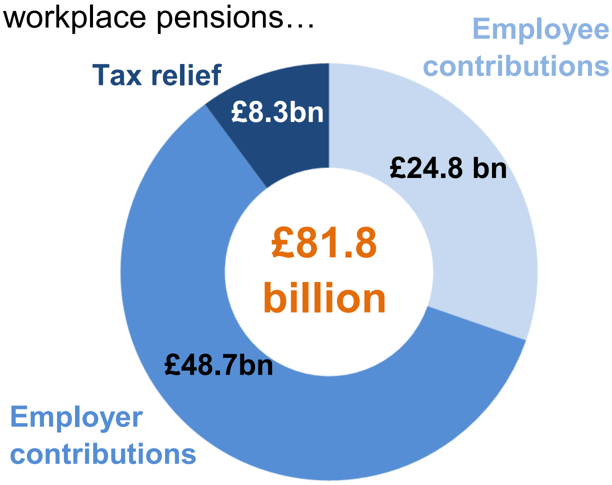
Estimated impact of automatic enrolment on workplace pension membership for groups of eligible private sector workers:

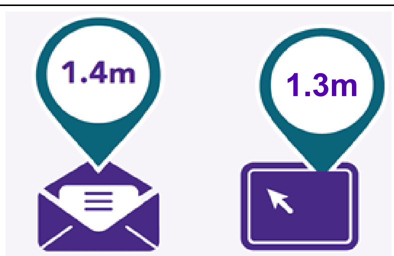


Total average contributions for eligible workers at large and medium private sector employers (as a proportion of employee earnings)…



2015 annual total amount saved into workplace pensions…

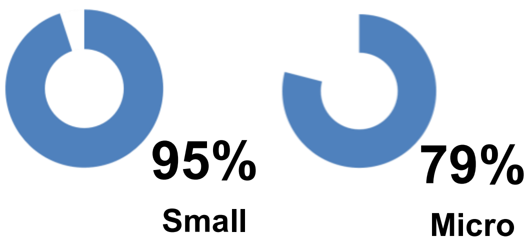




TPR letters sent to UK employers about their staging dates

Unique visitors to the TPR automatic enrolment webpage

Most small and micro employers yet to stage are aware of automatic enrolment



[1] Based on The Pensions Regulator research and analysis and data from the Annual Survey of Hours and Earnings (ASHE) 2015, as available at the end of October 2016.

Contents

Acknowledgements

We would like to thank the many contributors to this report from the Department for Work and Pensions (DWP), The Pensions Regulator (TPR), National Employment Savings Trust (NEST), and the Institute for Fiscal Studies (IFS).

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Abbreviations

DB	Defined Benefit
DC	Defined Contribution
DWP	Department for Work and Pensions
EPP	Employers' Pension Provision Survey
HMRC	Her Majesty's Revenue and Customs
NEST	National Employment Savings Trust
SPa	State Pension age
TPR	The Pensions Regulator

Glossary of terms

Active member	Individuals currently contributing to a pension scheme, or having contributions made on their behalf.
Automatic enrolment	The Government has introduced a law designed to help people save more for their retirement. This requires all employers to enrol their eligible jobholders into a workplace pension scheme if they are not already in one. In order to preserve individual responsibility for the decision to save, workers have the right to **opt out** of the scheme.
Career average	A **Defined Benefit** (DB) scheme that gives individuals a pension based on their salary times the accrual rate in each year of their working life. Entitlements that are built up each year are revalued in line with inflation or earnings.
Ceasing active membership	If an eligible jobholder chooses to stop paying into an automatic enrolment scheme after the end of the opt out period, they are said to cease active membership.
Cessation	When a worker has **ceased active membership.**
Contract-based pensions	Pensions where the legal contract is between the individual and the pension provider, usually an insurance company. Also known as **personal pensions**.
Contributions	The amount (often expressed as a percentage of earnings) that a worker and/or employer pays into a pension.
Defined Benefit	A type of occupational pension scheme. In a DB scheme the amount the member gets at retirement is based on various factors. These could include how long they have been a member of the pension scheme and earnings. Examples of DB pension schemes include **final salary** or **career average** earnings-related schemes. In most schemes, some of the pension can be taken as a tax-free lump sum. The rest is then received as regular income, which might be taxable.
Defined Contribution	A type of pension scheme. In a DC scheme a member's pension pot is put into various investments such as shares (shares are a stake in a company).The amount in the pension pot at retirement is based on how much is paid in and how well the investments have performed. The pension can usually be accessed from age 55. These are also known as 'money purchase' schemes.

Eligible jobholder	A worker (sometimes referred to as an employee) who is 'eligible' for automatic enrolment. An eligible jobholder must be aged at least 22 but under **State Pension age**, earn above the earnings trigger for automatic enrolment, and work or usually work in the UK.
Employer size	Employer size is determined by the number of employees. For the purpose of staging dates, the Pensions Regulator categorises employer size based on number of employees in Pay As You Earn (PAYE) schemes as follows: Micro = 1 to 4 employees Small = 5 to 49 employees Medium = 50 to 249 employees Large = 250+ employees If any alternative definitions of employer size are used, they will be defined in the report.
Group Personal Pension	A type of personal pension scheme set up by an employer on behalf of its workers. Although the scheme is arranged by the employer, each pension contract is between the pension provider and the worker. The employer may also pay into the scheme, adding money to each worker's pension pot.
Group Stakeholder Pension	An arrangement made for the employees of a particular employer, or group of employers, to participate in a stakeholder pension on a group basis. This is a collecting arrangement only; the contract is between the individual and the **pension provider**, normally an insurance company.
Hybrid pension scheme	A private pension scheme which is neither purely a DB nor DC arrangement. Typically a hybrid scheme is a DB scheme, which includes elements of DC pension design.
Implementation	Refers to the period in which employer duties are being introduced. This will take place between October 2012 and April 2019 by size of employer (from large to small). See also **staging** and **phasing**.
Independent Financial Advisor	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 by the Financial Conduct Authority (FCA).
Levelling down	Strategies employers could use to reduce the generosity of contributions or outcomes for existing pension scheme members.

Master trust	A multi-employer **trust-based pension** scheme, which is promoted to a range of employers.
NEST	A trust-based workplace pension scheme, established by legislation, to support automatic enrolment and ensure that all employers have access to a quality, low-cost pension scheme with which to meet the employer duties.
Non-eligible jobholder	A worker who is not eligible for automatic enrolment but can choose to 'opt in' to an automatic enrolment scheme. If they do opt in, their employer must still make a contribution. Non-eligible jobholders are in either of the following two categories: a worker who is aged at least 16 and under 75 and earns above the lower earnings level of qualifying earnings but below the earnings trigger for automatic enrolment; or is aged at least 16 but under 22, or between **State Pension age** and under 75; and earns above the earnings trigger for automatic enrolment.
Occupational Pension scheme	A type of workplace pension organised by an employer (or on behalf of a group of employers) to provide benefits for employees on their retirement and for their dependants on their death. In the private sector, occupational schemes are trust-based. Types of occupational scheme include DB, DC and hybrid schemes.
Opt in	**Eligible jobholders** can choose to opt into the pension scheme nominated by the employer for automatic enrolment during the postponement period, where applicable. **Non-eligible jobholders** have the right to do the same at any time.
Opt out	Where a jobholder has been automatically enrolled, they can choose to 'opt out' of a pension scheme. This has the effect of undoing active membership, as if the worker had never been a member of a scheme on that occasion. It can only happen within a specific time period, known as the 'opt out period'.
Opt out period	A jobholder who officially becomes a member of a pension scheme under the automatic enrolment provisions has a period of time during which they can opt out. If a jobholder wants to opt out, they must do so within one month, from and including the first day of the opt out period. After this opt out period a jobholder can still choose to leave the scheme at any time.
Pension provider	An organisation, often a life assurance or asset management company, that offers financial products and services relating to retirement income.
Pension scheme	A legal arrangement offering benefits to members.

Personal pension	An arrangement where the pension is set up directly between an individual and a pension provider. This could be set up by an employer (see Group Personal Pension) or by an individual (sometimes referred to as an Individual Personal Pension). The individual pays regular monthly amounts or a lump sum to the pension provider who will invest it on the individual's behalf. The fund is usually run by financial organisations such as insurance companies or asset managers. Personal pensions are a form of DC pension. See also Contract-based pensions.
Phasing	The Government has set a minimum amount of money that has to be put into the pension by an employer and in total (i.e. employer and worker's contribution). Currently the total minimum contribution is 2 per cent of the worker's salary of which the employer must contribute at least 1 per cent and 0.2 per cent comes from the state in tax relief. From April 2018, the minimum contribution rises to five per cent of which the employer must contribute at least 2 per cent and the state contributes 0.6 per cent in tax relief. In April 2019 the contribution rate rises again to a total of 8 per cent of which the employer must contribute at least 3 per cent and the state contributes 1 per cent through tax relief.
Postponement	An additional flexibility for an employer that allows them to choose to postpone automatic enrolment for a period of their choice of up to three months. Postponement can only be used for a worker on the employer's staging date; the first day of worker's employment; or on the date a worker employed by them meets the criteria to be an eligible jobholder. If an employer chooses to use postponement, they must provide written notice of this to their workers.
Private pension	All pensions that are not provided by the state. They include occupational and personal pensions, including those for public sector employees.
Qualifying scheme	To be a qualifying scheme for automatic enrolment a pension scheme must meet certain minimum requirements, which differ according to the type of pension scheme. DC schemes are based on the contribution rate and require a minimum total contribution based on qualifying earnings, of which a specified amount must come from the employer. The minimum requirements for DB schemes are based on the benefits a jobholder is entitled to under the scheme. Hybrid pension schemes contain elements of DB and DC and, depending on what type of hybrid they are, will have to meet either the same, or a modified version of, the minimum requirements for DB or DC pension schemes or a combination of both.

Staging	Refers to the staggered introduction of the new employer duties, starting with the largest employers, based on PAYE scheme size, in October 2012, to the smallest in 2017. New PAYE schemes from April 2012 will stage last, in 2017 and 2018.
Staging date	The date on which an employer is required to begin automatic enrolment. It is determined by the total number of employees in an employer's largest PAYE scheme on 1 April 2012.
Stakeholder pension	A type of personal pension arrangement introduced in April 2001 which could be taken out by an individual or facilitated by an employer. Where an employer had five or more staff and offered no occupational pension and an employee earned over the lower earnings limit, the provision of access to a stakeholder scheme, with contributions deducted from payroll, was compulsory. Stakeholder pensions are usually a **contract-based** pension scheme, subject to government regulations, which limited charges and allowed individuals flexibility about contributions and transfers, introduced in April 2001. These ceased to be mandatory after the workplace pension reforms were introduced.
Standard Industry Classification	Way of classifying businesses and organisations by the type of economic activity in which they are engaged.
State Pension age	The earliest age at which an individual can claim State Pension.
The Pensions Regulator	Referred to as 'the regulator' and is the UK regulator of workplace pension schemes, including limited aspects of workplace personal pensions. It is responsible for ensuring employers are aware of their duties relating to automatic enrolment, how to comply with them and enforcing compliance. It uses a programme of targeted communications and a range of information to help employers understand what they need to do and by when.
Trust-based pensions	Pension schemes set up under trust law by one or more employers for the benefit of workers. In a trust-based scheme a board of trustees is set up to run the scheme. Trustees are accountable for making decisions about the way the scheme is run, although they may delegate some of the everyday tasks to a third party. See also **Occupational pension scheme** and **Master trust**.
Waiting period	A type of **postponement**, where new workers or newly eligible workers may have their automatic enrolment delayed for up to three months.
Weight(s)	Statistical term. Used in statistical analysis to better reflect the relative importance of a number or variable, for example a weight may be applied if a certain group is under-represented in a

	sample.
Worker	An employee or individual who has a contract to provide work or services personally and is not undertaking the work as part of their own business.
Workplace pensions	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 Acts 2007, 2008 (and updated as part of the Pensions Act 2011 and 2014). Starting in 2012, the reforms include a duty on employers to automatically enrol all eligible jobholders into a qualifying workplace pension scheme.

Executive summary

Background

The legislative changes set out in the Pensions Acts 2007, 2008 (and updated as part of the Pensions Act 2011 and 2014), and the packages of associated regulations, aim to increase private pension saving in the UK and reverse a long-term decline in pension participation. They form part of a wider set of pension reforms designed to ensure that the UK has a pension system that enables individuals to save towards achieving the lifestyle they aspire to in retirement, while minimising the burden on employers and the industry.

The reforms require employers to automatically enrol eligible workers into a qualifying workplace pension scheme and make a minimum contribution. The automatic enrolment duties are being staged in between October 2012 and February 2018 by employer size, starting with the largest. Total minimum contribution rates will be increased in phases from the current 2 per cent of a band of workers' earnings, to 5 per cent from April 2018 and then 8 per cent from April 2019.

Once fully implemented, we estimate that 10 million workers will be newly saving or saving more in a workplace pension as a result of automatic enrolment, and annual saving in workplace pensions is estimated to increase by £17 billion by 2019/20[2].

Evaluation Strategy

The Department for Work and Pensions (DWP) is committed to fully evaluating the effects of the workplace pension reforms, as set out in the published evaluation strategy[3]. Following on from the strategy, DWP published the baseline evaluation report[4] which described the landscape before the implementation of automatic enrolment and set out the key indicators against which progress will be measured.

Evaluation reports will be published on an annual basis as automatic enrolment duties for employers are implemented from 2012 to 2019. Thus far three reports have been published, in 2013[5], 2014[6] and 2015[7].

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[2] DWP (2016) *Workplace pensions: Update of analysis on Automatic Enrolment 2016*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

[3] DWP (2011). *Workplace pensions evaluation strategy.* At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214545/rrep764.pdf

[4] DWP (2012). *Workplace Pension Reforms: Baseline Evaluation Report.* At: https://www.gov.uk/government/publications/workplace-pension-reforms-baseline-evaluation-report-rr803

[5] DWP (2013). *Automatic Enrolment Evaluation Report 2013.* At: https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013

Key findings

Increasing the number of savers

Up to the end of October 2016, more than 6.87 million workers have been automatically enrolled by 293,868 employers, with 265,000 workers having been automatically re-enrolled by 4,713 employers[8].

Data collected up to April 2015 suggests that the number of eligible employees participating in a workplace pension increased to 15.1 million (75 per cent) up from 10.7 million (55 per cent) in 2012[9]. Analysis of pension participation trends by employer size shows that participation increases have been associated with patterns of automatic enrolment roll-out[10] as we would expect.

Analysis suggests that automatic enrolment has increased workplace pension membership among eligible private sector employees by 37 percentage points. Further sub-group analysis suggests that automatic enrolment is having a larger impact on workplace pension membership among those groups for whom coverage, pre-reform, was lower, including lower earners and younger age groups[11].

By the end of March 2016, NEST's membership had risen to over 3.2 million members and over 86,000 employers, compared to just over 2 million members and just over 14,000 employers the previous year[12].

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[6] DWP (2014). *Automatic Enrolment Evaluation Report 2014.* At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377120/rr887-automatic-enrolment-evaluation-2014.pdf

[7] DWP (2015). *Automatic Enrolment Evaluation Report 2015.* At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477176/rr909-automatic-enrolment-evaluation-2015.pdf

[8] TPR (2016) *Automatic enrolment Declaration of compliance report July 2012 – end October 2016.* At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf

[9] DWP (2016) *Workplace pension participation and saving trends: 2005 to 2015*. At: https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2005-to-2015

[10] Cribb, J. and Emmerson, C. (2016) *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK.* Institute for Fiscal Studies. At: https://www.ifs.org.uk/publications/8733

[11] Cribb, J. and Emmerson, C. (2016) *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK.* Institute for Fiscal Studies. At: https://www.ifs.org.uk/publications/8733

[12] NEST (2016). *National Employment Savings Trust Corporation annual report and accounts 2015-16.* At: https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Corp-ARA_2015_2016,PDF.pdf

Increasing the amount of savings

The annual total amount saved by eligible employees across both sectors stands at £81.8 billion in 2015 which is an increase of £1.4 billion from 2014, and up £7.1bn since 2012. Annual total amounts increased in both public and private sectors from 2014. The public sector increased by around £0.9 billion and the private sector by £0.6 billion.

Analysis suggests that automatic enrolment has increased total contributions to workplace pensions, with average contributions for private sector eligible employees working for large and medium employers climbing to 8.1% of total earnings by April 2015 compared with 7.0% in April 2012[13], and made greater levels of pension contributions more common. The effect of employers enrolling their employees at contribution levels above the minimum appears to have outweighed the effect of any levelling down on overall contribution rates[14]. Separate analysis suggests that pre-2012, around 6 per cent of eligible savers had their employer contributions, or other outcomes reduced between years. This has risen to 9 per cent of eligible savers in 2015. Overall, eligible employees are continuing to save persistently[15].

Awareness, understanding and activity

In order to be able to comply with their duties, employers need to be aware of and understand how to discharge them. The Pensions Regulator (TPR) is responsible for ensuring employers are aware of their duties relating to automatic enrolment, how to comply with them and enforcing compliance. TPR research suggests that most micro employers and nearly all small employers who have a staging date in 2016 or 2017 are aware of automatic enrolment. Alongside this, 60% of micro employers and 81% for small employers have an understanding of automatic enrolment, and nearly all employers (92%) have already engaged in early information seeking behaviour[16]. Levels of awareness and understanding remain almost universal among intermediaries[17].

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[13] Cribb, J. and Emmerson, C. (2016) *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK.* Institute for Fiscal Studies. At: https://www.ifs.org.uk/publications/8733

[14] Cribb, J. and Emmerson, C. (2016) *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK.* Institute for Fiscal Studies. At: https://www.ifs.org.uk/publications/8733

[15] DWP (2016) *Workplace pension participation and saving trends: 2005 to 2015*. At: https://www.gov.uk/government/statistics/workplace-pension-participation-and-saving-trends-2005-to-2015

[16] TPR (2016) *Employers' awareness, understanding and activity relating to automatic enrolment and evaluation of communications campaign Spring 2016 Employers Survey Summary Report.* At: http://www.thepensionsregulator.gov.uk/docs/employer-automatic-enrolment-research-spring-2016.pdf

[17] TPR (2016) *Intermediaries' awareness, understanding and activity relating to automatic enrolment and evaluation of communications campaign Spring 2016 Intermediary Survey Summary Report June*

Between one and two months from staging, understanding levels among small employers to date stands at 82%, while among micro employers it stands at 88%. These are similar levels to levels among medium and large employers: 88% and 92% respectively.

Next steps

The latest evidence shows that automatic enrolment remains on track, with millions more employees enrolled and encouraging evidence of the significant effect the policy is having on private pension saving in the UK. The department is committed to a review of automatic enrolment in 2017 and we will take this opportunity to refresh our evaluation strategy. The focus of evidence gathering for next year's report will be understanding the experience and behaviours of small and micro employers and their employees, and taking advantage of more and better data to analyse opt out, cessation, and re-enrolment.

2016. At: http://www.thepensionsregulator.gov.uk/docs/intermediary-automatic-enrolment-research-spring-2016.pdf

1 Introduction

To support the millions of people in the UK not saving enough for retirement, legislation was introduced in the Pensions Acts 2007, 2008 (and updated as part of the Pensions Act 2011 and 2014), and the packages of associated regulations, with the aim of increasing private pension saving in the UK. They form part of a wider set of pension reforms designed to ensure that the UK has a pension system that enables individuals to save towards achieving the lifestyle they aspire to in retirement, while minimising the burden on employers and the industry.

The reforms require employers to automatically enrol eligible workers into a qualifying workplace pension scheme and make a minimum contribution. The automatic enrolment duties are being staged in between October 2012 and February 2018 by employer size, starting with the largest employers. Workers will be eligible provided they: are aged at least 22 and under State Pension age (SPa); earn over £10,000 per year in 2016/17 terms (these thresholds are reviewed annually[18]); normally work in the UK and do not currently participate in a qualifying workplace pension scheme. Current legislation specifies total minimum contributions are 2 per cent of a band of workers' earnings, of which at least 1 per cent must come from the employer. This will rise to 5 per cent from April 2018, of which at least 2 per cent must come from the employer. It will then rise to 8 per cent from April 2019, of which at least 3 per cent must come from the employer.

Once fully implemented, we estimate that 10 million workers will be newly saving or saving more in a workplace pension as a result of automatic enrolment, and the annual saving in workplace pensions will increase by £17 billion by 2019/20[19].

1.1 Evaluation strategy

The Department for Work and Pensions (DWP) is committed to fully evaluating the effects of the workplace pension reforms, as set out in its evaluation strategy[20]. DWP published the baseline evaluation report[21] which described the landscape before the

[18] DWP (2016) Automatic Enrolment: Review of the earnings trigger and qualifying earnings band for 2017/18. At: https://www.gov.uk/government/publications/automatic-enrolment-review-of-the-earnings-trigger-and-qualifying-earnings-band-for-201718

[19] DWP (2016) *Workplace pensions: Update of analysis on Automatic Enrolment 2016*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

[20] DWP (2011). *Workplace pensions evaluation strategy.* At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214545/rrep764.pdf

[21] DWP (2012). *Workplace Pension Reforms: Baseline Evaluation Report.* At: https://www.gov.uk/government/publications/workplace-pension-reforms-baseline-evaluation-report-rr803

implementation of automatic enrolment and set out the key indicators against which progress will be measured.

Evaluation reports are being published annually as automatic enrolment is implemented from 2012 to 2019. To date three reports have been published, in 2013[22], 2014[23] and 2015[24] showing updates and progress against the baseline, using the latest available research and analysis from a range of information sources. The evaluation is structured around eight evaluation questions (see Appendix A) and draws on a variety of evidence sources (see Appendix B).

1.2 Report structure

The structure of this year's report is as follows:

1.2.1 Delivery of reforms (Chapter 2)

This chapter updates key findings from research and analysis by DWP, The Pensions Regulator (TPR) and the National Employment Savings Trust (NEST). This relates to the following evaluation strategy questions:

Were the Workplace Pension Reforms delivered to the planned timescales? (EQ1)

Does NEST accept all employers who choose the scheme, while offering low costs to members and remaining financially viable? (EQ2)

Do employers know about, understand and comply with their employer duties? (EQ3)

1.2.2 Impact of automatic enrolment (Chapter 3)

This chapter builds on the recent pension participation trends analysis undertaken by the Institute for Fiscal Studies (IFS) as part of the Retirement Savings Consortium, together with relevant DWP analysis. This relates to the following evaluation strategy questions:

To what extent do the Workplace Pension Reforms increase the number of individuals saving into workplace pensions? (EQ4)

To what extent do the Workplace Pension Reforms increase the amount being saved in workplace pensions? (EQ5)

[22] DWP (2013). *Automatic Enrolment Evaluation Report 2013.* At: https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013

[23] DWP (2014). *Automatic Enrolment Evaluation Report 2014.* At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/377120/rr887-automatic-enrolment-evaluation-2014.pdf

[24] DWP (2015). *Automatic Enrolment Evaluation Report 2015.* At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477176/rr909-automatic-enrolment-evaluation-2015.pdf

1.2.3 Next steps

This chapter discusses next steps for the evaluation of automatic enrolment evaluation, touching on the wider context of the 2017 Review, alongside outlining plans for research and refreshing the evaluation approach itself.

2 Delivery of reforms

Summary

- Once fully implemented, we estimate that 10 million workers will be newly saving or saving more in a workplace pension as a result of automatic enrolment.
- Since the start of automatic enrolment in 2012, more than 6.87 million workers have been automatically enrolled by over 293,868 employers, with 265,000 workers having been automatically re-enrolled by 4,713 employers.
- As of September 2016, the regulator had concluded 20,050 cases investigating possible non-compliance by employers. Fewer than 5% of Compliance Notices progressed to an Escalating Penalty Notice, demonstrating the effectiveness of educating and enabling employers before undertaking enforcement.
- Most micro employers and nearly all small employers with a staging date in 2016 or 2017 are aware of automatic enrolment, with levels of awareness remaining almost universal among intermediaries. Most employers have an understanding of automatic enrolment (60% among micro employers and 81% for small employers).
- Between one and two months from staging, levels of understanding among small employers to date stands at 82%, while among micro employers it stands at 88%. These are similar levels to those among medium and large employers: 88% and 92% respectively.

2.1 Eligible target group

DWP estimates that there are 11 million workers in the eligible target group[25] for automatic enrolment[26]. Of these, ten million workers are estimated to be newly saving or saving more as a result of automatic enrolment by 2018.

[25] The eligible target group is defined as workers who are aged between 22 and State Pension age, earning over £10,000 in at least one job and either (i) not currently saving in a workplace pension scheme; or (ii) saving in a workplace pension scheme where the employer contributions are less than 3% of the worker's salary, and is not a defined benefit scheme.

[26] DWP (2016) *Workplace pensions: Update of analysis on Automatic Enrolment 2016*. At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/560356/workplace-pensions-update-analysis-auto-enrolment-2016.pdf

2.2 Role of The Pensions Regulator

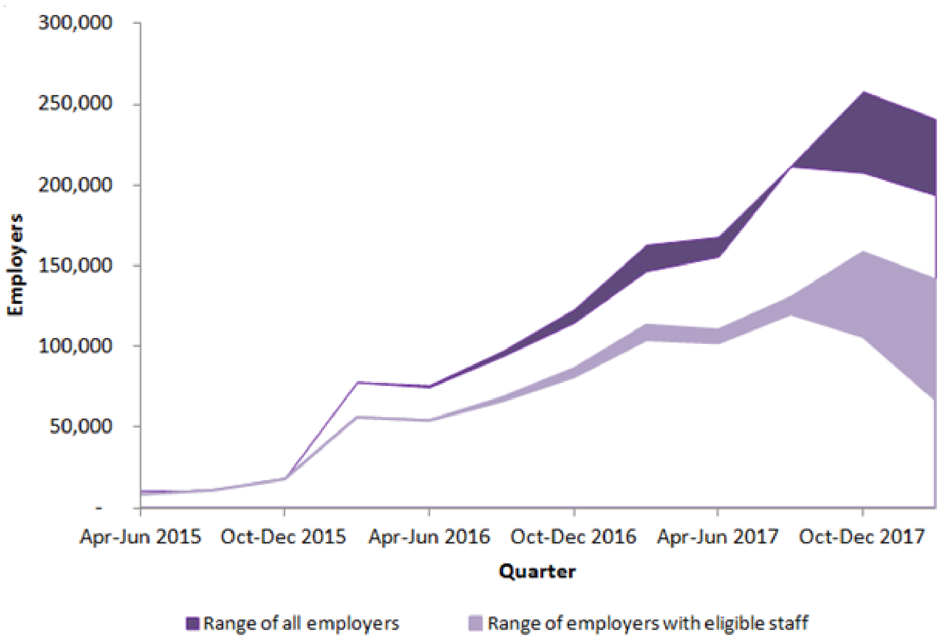
The role of the regulator is to maximise compliance with the employer duties and safeguards set out in the legislation, using a risk-based approach to deter, prevent or address non-compliance.

2.2.1 Employer staging forecast

The regulator published an updated forecast of employers that we expect to stage until the end of 2017-2018 in its 2016 Automatic enrolment: Commentary and analysis report[27]. As this is a forecast, the data is presented as a range of how many employers are due to stage and have AE duties, as illustrated by Figure 2.1. For example, the forecast suggests that between 104,000 and 113,000 small and micro employers with eligible staff are due to stage between January and March 2017. The forecast is uncertain – for example, it does not account for future economic factors, threshold changes or the effect of the national living wage. It also does not account for changes to employer births and deaths as a result of underlying data changes (e.g. tax rules or internal process changes).

The majority of the change this year compared with the previous (2015) forecast was due to a larger than previously thought number of businesses being companies with one director and no other members of staff (referred to as 'single person directors'). Since producing the 2015 forecast, the regulator can now forecast more accurately as a result of its use of HMRC Real Time Information (RTI) data, and due to feedback received directly from employers.

Figure 2.1: Quarterly forecast of employers due to comply with automatic enrolment



[27] TPR (2016) *Automatic Enrolment Commentary and analysis: April 2015 – March 2016*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2016.pdf

2.2.2 Monthly declaration of compliance data

The regulator publishes monthly information about the number of employers who have complied with their duties by completing the declaration of compliance (‘registration’) and reporting on the number of eligible jobholders automatically enrolled. Since July 2012, up to the end of October 2016[28], 293,868 employers had registered their compliance with the duties, with over 6.87 million workers automatically enrolled. Similarly, 4,713 employers had confirmed that they had completed their re-declaration of compliance, with 265,000 workers having been automatically re-enrolled[29]. The data also shows that 10.20 million workers were not automatically enrolled because they were already active members of a qualifying workplace pension scheme or had Defined Benefit (DB) or hybrid scheme transitional arrangements applied to them. A further 6.16 million workers were not automatically enrolled as they did not meet either the earnings or age criteria at the time (for example, a worker who earned over £10,000 per year, but was aged under 22 years old would not be automatically enrolled).

Additional detailed analysis of declaration of compliance data is available in the regulator’s 2016 Automatic enrolment: Commentary and analysis report[30].

2.2.3 Communicating reforms to employers and their advisers

The regulator aims to help employers understand what they need to do, and by when, to meet their automatic enrolment duties. Messaging and guidance is delivered to employers and nominated advisers through a series of tailored direct communications (letters and emails), that guide the reader through the steps needed to achieve compliance. These letters and emails, together with the national advertising campaign and supporting social media and press work, seek to drive traffic to TPR’s website where information designed for the small and micro employer can be found.

Alongside its established direct communications programme for small and micro employers, the regulator has:

- Continued with bursts of broadcasting in partnership with the DWP. This campaign continues to target small and micro employers through TV, radio and digital advertising. Subsequent research by the regulator found that 76% of

[28] TPR (2016) *Automatic enrolment Declaration of compliance report July 2012 – end October 2016*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-declaration-of-compliance-monthly-report.pdf

[29] Employers have a duty to conduct automatic re-enrolment every three years after their staging date. More information is available at: http://www.thepensionsregulator.gov.uk/docs/detailed-guidance-11.pdf

[30] TPR (2016) *Automatic Enrolment Commentary and analysis: April 2015 – March 2016*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-commentary-analysis-2016.pdf

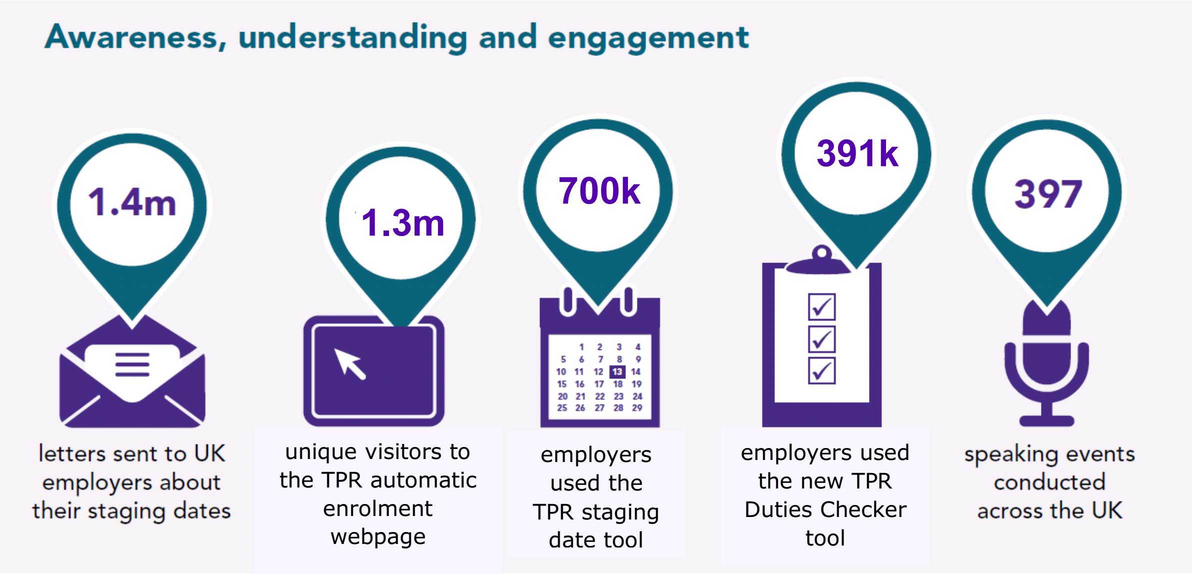
employers remembered seeing or hearing at least one of the campaign's adverts[31].

- Simplified the language in its communications to clearly explain what an employer needs to do, by when, and to signpost relevant guidance with an online step-by-step guide.
- Re-launched its website to include a Duties Checker tool. The interactive questions help employers understand which duties apply to them, and quickly establish whether they will need to put any employees into a pension scheme. The questions will also place the employer on a programme of direct communications that is relevant to their situation, ensuring that letters and emails are tailored to the steps they need to carry out to comply with the law.
- Continued to reach the adviser audience through a variety of communications channels, including webinars, workshops, newsletters, social media, videos, media articles and interviews, and a new online guide which works with that of the employer guide mentioned above. The regulator has also engaged intensively with professional bodies representing accountants, bookkeepers, financial advisers and payroll providers, as these are the intermediaries most commonly used by small and micro employers.
- Developed content in a range of formats – animations, factsheets, info-graphics and online tools to provide guidance on more complex areas of automatic enrolment for micro employers.
- Sought to further amplify workplace pension messaging to the small and micro employer audience through on-going engagement with Employer and Trade Bodies. Through the supply of content tailored to the needs of various sectors, common queries can be addressed and appropriate guidance conveyed.
- Developed bespoke communications journeys for micro-employer audiences with specific needs, including a tailored approach to communicating with the employers of carers and employers who are exempt from online Real Time Information (RTI) provisions.

In the 12 months to October 2016, the regulator's website received over 1.3 million unique visitors to its automatic enrolment page, with nearly 700,000 employers using the regulator's staging date tool. Since it was introduced in October 2015, 391,000 employers have used the new Duties Checker tool.

[31] TPR (2016) *Employers' awareness, understanding and activity relating to automatic enrolment and evaluation of communications campaign Spring 2016 Employers Survey Summary Report.* At: http://www.thepensionsregulator.gov.uk/docs/employer-automatic-enrolment-research-spring-2016.pdf

Figure 2.2: Summary of TPR engagement activity



2.2.4 Compliance and enforcement

The regulator's approach is always to educate and enable in the first instance, but where it encounters non-compliance, the regulator will use its powers to help ensure that employers comply with their legal obligations. Its approach to maximising compliance is set out in its compliance and enforcement strategy[32] and policy[33].

The regulator publishes information on a quarterly basis about its cases and the powers it has used relating to automatic enrolment and associated employer duties[34]. As of 30 September 2016, the regulator had concluded 20,050 cases investigating possible non-compliance by employers. Between July and September 2016, the regulator had to use its powers more often, as increasing numbers of small and micro employers reached their staging date and left it to the last minute to prepare. Although the number of Compliance Notices rose to over 26,000, the regulator found the majority of employers subsequently complied when given this 'nudge' to remind them of their duties. The regulator's use of Escalating Penalty Notices also increased – however, this was a very small proportion relative to the number of Compliance Notices, or to the number of employers staging. Fewer than 5% of Compliance Notices progressed to an Escalating Penalty Notice, demonstrating that the

[32] TPR (2016) *Compliance and enforcement strategy for employers subject to automatic enrolment duties*. At: http://www.thepensionsregulator.gov.uk/docs/pensions-reform-compliance-and-enforcement-strategy.pdf

[33] TPR (2016) *Compliance and enforcement policy for employers subject to automatic enrolment duties.* At: http://www.thepensionsregulator.gov.uk/docs/pensions-reform-compliance-and-enforcement-policy.pdf

[34] TPR (2016) *Automatic enrolment Compliance and enforcement Quarterly bulletin 1 July – 30 September 2016*. At: http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-use-of-powers-sept-2016.pdf

regulator's approach of educating and enabling before enforcing was both effective and proportionate.

2.3 Employer awareness, understanding and activity

In order to be able to comply with their duties, employers need to be aware of and understand how to discharge them. The regulator published its Employer Survey Tracker report which tracks employers' awareness, understanding, knowledge, attitudes, actions and intended actions in relation to automatic enrolment in July 2016[35].

We class employers as having awareness and understanding of the workplace pension reforms if they have sufficient knowledge to know what the main requirements and duties are for them when prompted.

Key findings included:

- There continued to be high levels of awareness among small (95%) and micro (79%) employers due to reach their staging in 2016 and 2017.
- Levels of understanding of automatic enrolment (as measured by the research) among employers due to reach their staging in 2016 and 2017 increased from 68% in Autumn 2015 to 81% in Spring 2016. Among micro employers it stood at 60%. Higher awareness of the need to communicate with staff on an individual basis and of the need to complete a declaration of compliance contributed to the increased understanding among small employers.
- The vast majority of employers were confident of their future compliance with automatic enrolment and nearly all employers (92%) had already engaged in early information seeking behaviour.

The Pensions Regulator also assesses employer readiness as part of its monthly Staging Date Tracker for employers who are between one and two months from their staging date. Key findings of this survey include:

- The regulator's Employer Survey Tracker and Staging Date Tracker show substantial progression in levels of understanding as employers approach their staging date, with a significant increase achieved by the time they are between one and two months from staging.
- Between one and two months from staging, understanding levels among small employers to date stands at 82%, while among micro employers it stands at 88%. These are similar levels to levels among medium and large employers: 88% and 92% respectively.

[35] TPR (2016) *Employers' awareness, understanding and activity relating to automatic enrolment and evaluation of communications campaign Spring 2016 Employers Survey Summary Report.* At: http://www.thepensionsregulator.gov.uk/docs/employer-automatic-enrolment-research-spring-2016.pdf

2.4 Intermediaries' awareness, understanding and activity

The regulator published research in July 2016 measuring awareness and understanding of automatic enrolment among key intermediaries who support employers, namely financial advisers, payroll administrators, accountants and bookkeepers[36]. Key findings included:

- Awareness of automatic enrolment remained almost universal: standing at between 97% and 100% across the intermediary types. These levels have been relatively stable since Spring 2014, ranging from 91% to 100% across all intermediary types.
- Understanding of automatic enrolment remained in excess of 90% for each intermediary type. This represented a considerable increase on the levels found in the Spring 2012 survey, when 29% of bookkeepers, 79% of accountants, 69% of payroll administrators and 85% of IFAs understood the reforms.
- The majority of intermediaries had been approached by clients regarding automatic enrolment services (ranging from 84% to 94%). This contact was perceived to be mostly prompted by direct communications to employers from the regulator.
- Overall, 83% of intermediaries had faced or expected to face challenges in offering automatic enrolment services to their clients. The most common challenge reported by each intermediary type was that clients were "unwilling to pay what was required for their services".

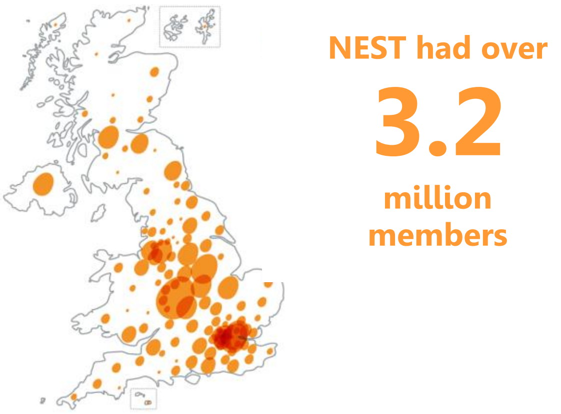
2.5 NEST

The National Employment Savings Trust (NEST) is a workplace pension scheme established in 2010 with a primary purpose to support the introduction of automatic enrolment. It is a trustee-governed automatic enrolment qualifying scheme. In 2011, NEST opened on a voluntary basis in preparation for the first wave of employer duties from September 2012. A Public Service Obligation (PSO) was given to NEST to accept all employers wanting to join the scheme to fulfil their employer duties (entirely or in part).

[36] TPR (2016) *Intermediaries' awareness, understanding and activity relating to automatic enrolment and evaluation of communications campaign Spring 2016 Intermediary Survey Summary Report June 2016.* At: http://www.thepensionsregulator.gov.uk/docs/intermediary-automatic-enrolment-research-spring-2016.pdf

The NEST Corporation's annual report for 2015/16[37] outlined what NEST had achieved over the year from April 2015 to the end of March 2016, with a subsequent call for evidence[38] noting further progress. Significant achievements included:

- NEST's membership had risen to over 3.2 million members and over 125,000 employers, compared to just over 2 million members and just over 14,000 employers by the time of the 2014/15 NEST annual report.
- At the end of March 2016, NEST managed around £827 million in assets, compared to nearly £420 million at the end of March 2015.



[37] NEST (2016). *National Employment Savings Trust Corporation annual report and accounts 2015-16.* At: https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Corp-ARA_2015_2016,PDF.pdf

[38] DWP (2016) *NEST: Evolving for the Future.* At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535369/nest-evolving-for-the-future-call-for-evidence.pdf

3 Impact of Automatic Enrolment

Summary

- Data collected up to 2015 suggests that the number of eligible employees participating in a workplace pension increased to 15.1 million (75 per cent) up from 10.7 million (55 per cent) in 2012. Overall, eligible employees are continuing to save persistently.
- Detailed analysis of pension participation trends shows that participation increases have been associated with patterns of automatic enrolment roll-out.
- The annual total amount saved by eligible employees across both sectors stands at £81.8 billion in 2015 which is an increase of £1.4 billion from 2014, and up £7.1bn since 2012. Annual total amounts increased in both public and private sectors from 2014. The public sector increased by around £0.9 billion and the private sector by £0.6 billion.

Analysis suggests that:

- Automatic enrolment has increased workplace pension membership among eligible private sector employees by 37 percentage points, with further sub-group analysis suggesting that automatic enrolment is having a larger impact on workplace pension membership among those groups for whom coverage, pre-reform, was lower, including lower earners and younger age groups.
- Despite a risk that automatic enrolment could have lowered contribution rate levels given its low minimum contribution rates, automatic enrolment has actually increased total contributions to workplace pensions, and made higher levels of pension contributions more common.
- Indeed, many employers appear to have enrolled their employees at contribution levels above the minimum, and this has outweighed the effect of any levelling down on overall contribution rates. Separate analysis suggests that prior to 2012, employers were adopting levelling down strategies (see Box 3.1) for around 6 per cent of eligible savers. This has risen to 9 per cent of eligible savers in 2015, but it is not possible to identify a causal link with automatic enrolment.
- Automatic enrolment has resulted in a considerable increase in active membership of private sector defined contribution (DC) occupational pension schemes, which remained around 1.0 million from 2008 to 2012, but rose to 3.2 million in 2014 and 3.9 million in 2015. No similar increase has been seen regarding active membership of private sector defined benefit (DB) schemes, with active membership of private sector DB schemes remaining at around 1.6 million over the last three years.

3.1 Trends in workplace pension participation

This section looks at measures to indicate the effects of automatic enrolment on increasing the number of savers involved in workplace pensions. DWP analysis of the Office for National Statistics (ONS) Annual Survey of Hours and Earnings (ASHE) data estimates the pension participation trends of eligible employees over time; this is broken down according to public and private sector, employer size, employee earnings, age and gender[39]. The DWP Family Resources Survey (FRS)[40] provides specific characteristic breakdowns that are not accounted for by ASHE.

Together these annual surveys can monitor shifts in workplace pension participation since the reforms. The most recent ASHE data[41] was collected with reference to April 2015, showing significant increases in participation and pension saving. The FRS data was collected throughout the 2014/15 financial year. Therefore any potential impact of automatic enrolment may be lessened because fewer employees will have been automatically enrolled due to the staged implementation approach.

3.1.1 Overall number of savers

Between 2005 and 2012 there was a general downward trend in workplace pension participation, from 62 per cent (12 million eligible employees) to just 55 per cent (10.7 million). However, since the reforms there has been a clear increase in the number of eligible employees participating in a workplace pension, up to 75 per cent (15.1 million) in 2015.

Figure 3.1 illustrates trends in workplace pension participation for eligible employees by sector over time. Public sector participation remains high in 2015 at 91 per cent (4.7 million employees). Whereas in the private sector, pension participation had been declining from 51 per cent (7.1 million) in 2005 to 42 per cent (5.9 million) in 2012. However, since 2012 this has risen by 28 percentage points to 70 per cent of private sector eligible employees participating (10.4 million) in 2015.

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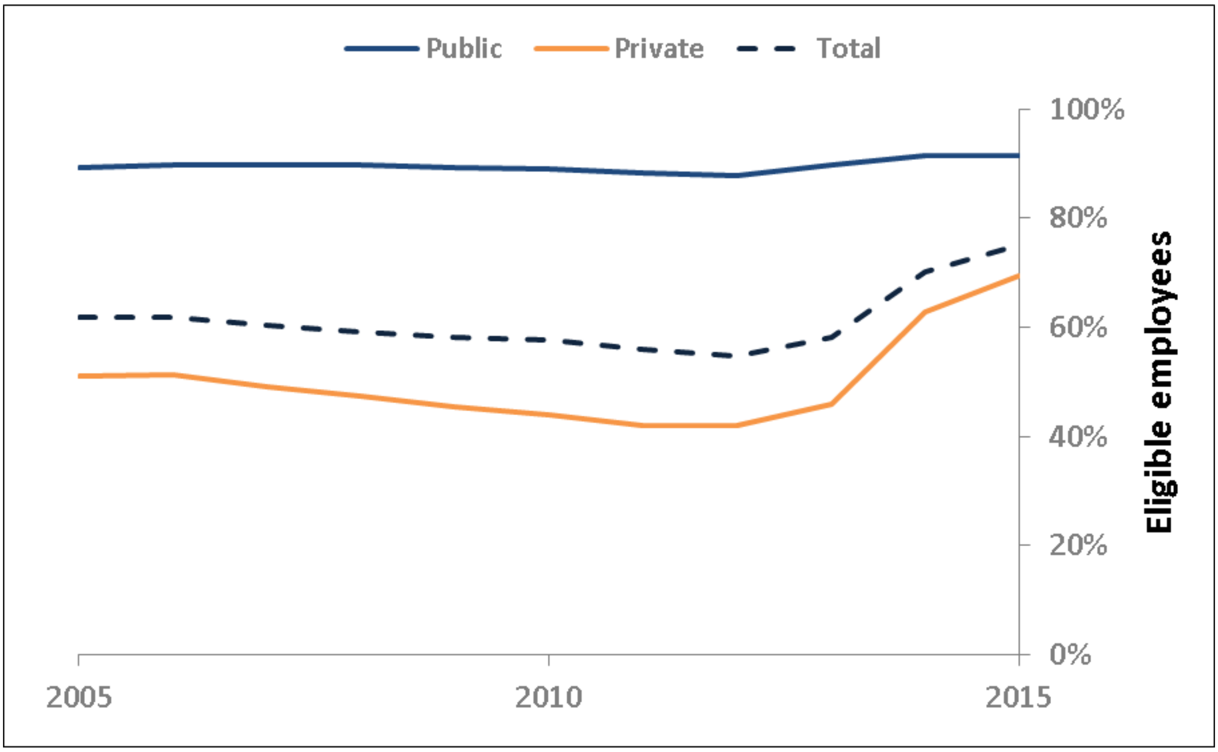
[39] For additional breakdowns consult DWP (2016). *Official statistics on workplace pension participation and saving trends for eligible employees*. At: https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

[40] FRS data for 2014/15 was collected between April 2014 and March 2015 and published 28 June 2016. At: https://www.gov.uk/government/statistics/family-resources-survey-financial-year-201415

[41] Statistical bulletin: 2015 Annual Survey of Hours and Earnings: Summary of Pensions Results published on 18 November 2015. At: http://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2015provisionalresults

Figure 3.1 - Eligible Employees participating in workplace pensions, by sector



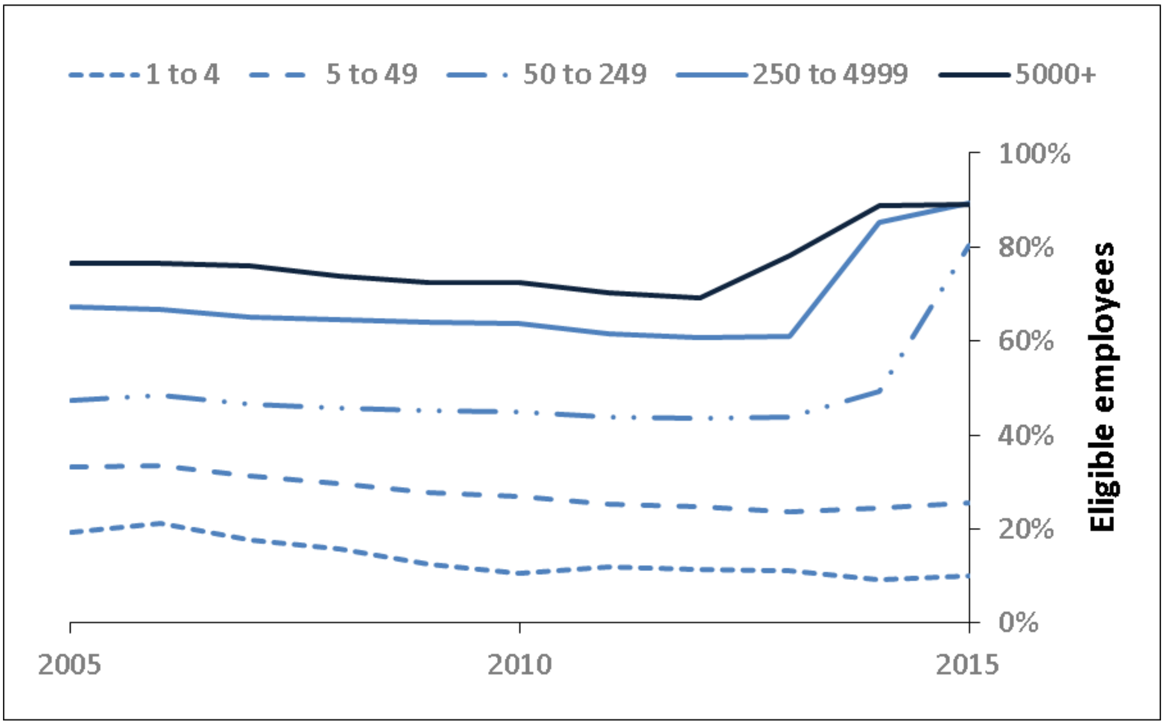
Source: DWP estimates derived from the ONS ASHE, GB, 2005–2015.

3.1.2 Employer size

Figure 3.2 demonstrates the close relationship between employer size and workplace pension participation. In 2015, the highest participation levels were seen amongst the largest employers, with employers with 5,000 or more employees at 89 per cent participation, compared to just 10 per cent for micro employers (one to four employees). This may historically be explained by the high proportions of employees working for large public sector employers where participation rates have always been high, whereas, the more recent increases correspond with the staged implementation of automatic enrolment which began with large employers.

Overall participation among eligible employees in 2015 was 89 per cent for employers with 250 to 4,999 employees, 80 per cent for those with 50 to 249 employees (an increase of 31 percentage points since 2014) and 26 per cent for 5 to 49 employees (who had yet to introduce automatic enrolment).

Figure 3.2 - Eligible employees participating in workplace pensions, by employer size

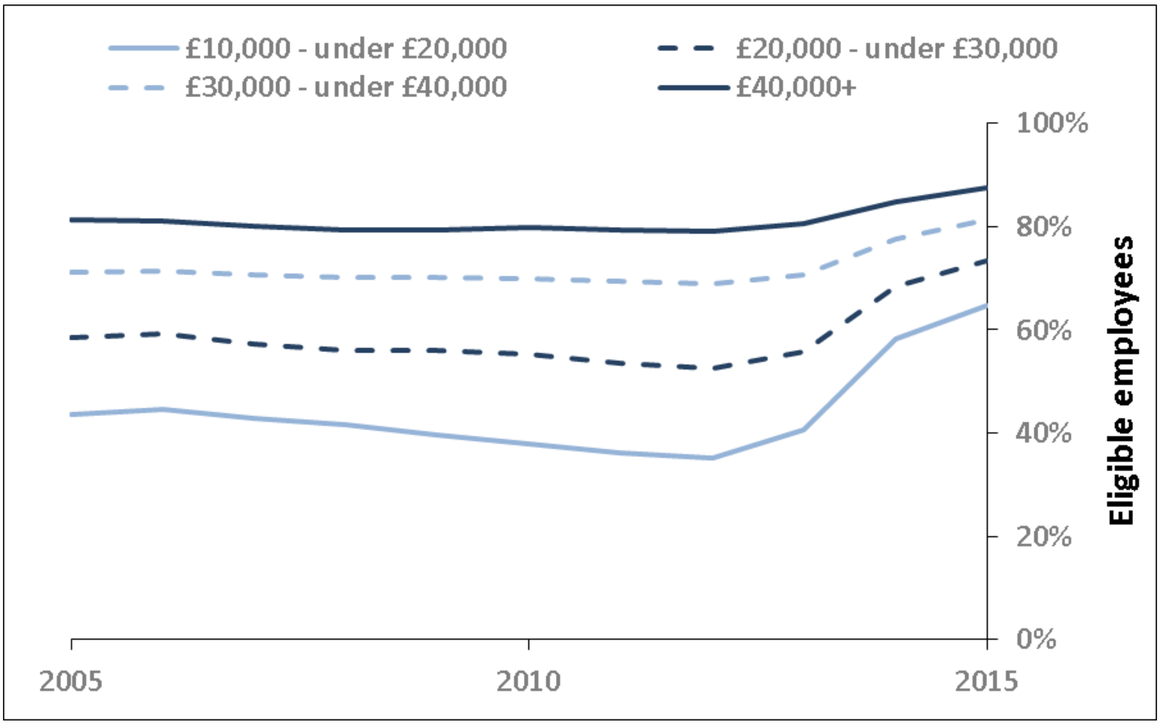


Source: DWP estimates derived from the ONS ASHE, GB, 2005–2015.

3.1.3 Earnings

Figure 3.3 shows the close relationship between pension participation and earnings. Those who earn the most (over £40,000) also have the highest participation levels at 88 per cent. However, the introduction of automatic enrolment has seen increases in participation amongst lower earners. For example, those earning between £10,000 (the current earnings trigger for automatic enrolment) and £20,000 now have a participation rate of 65 per cent, an increase of 30 percentage points from 2012.

Figure 3.3 - Eligible employees participating in workplace pensions, by gross annual earnings



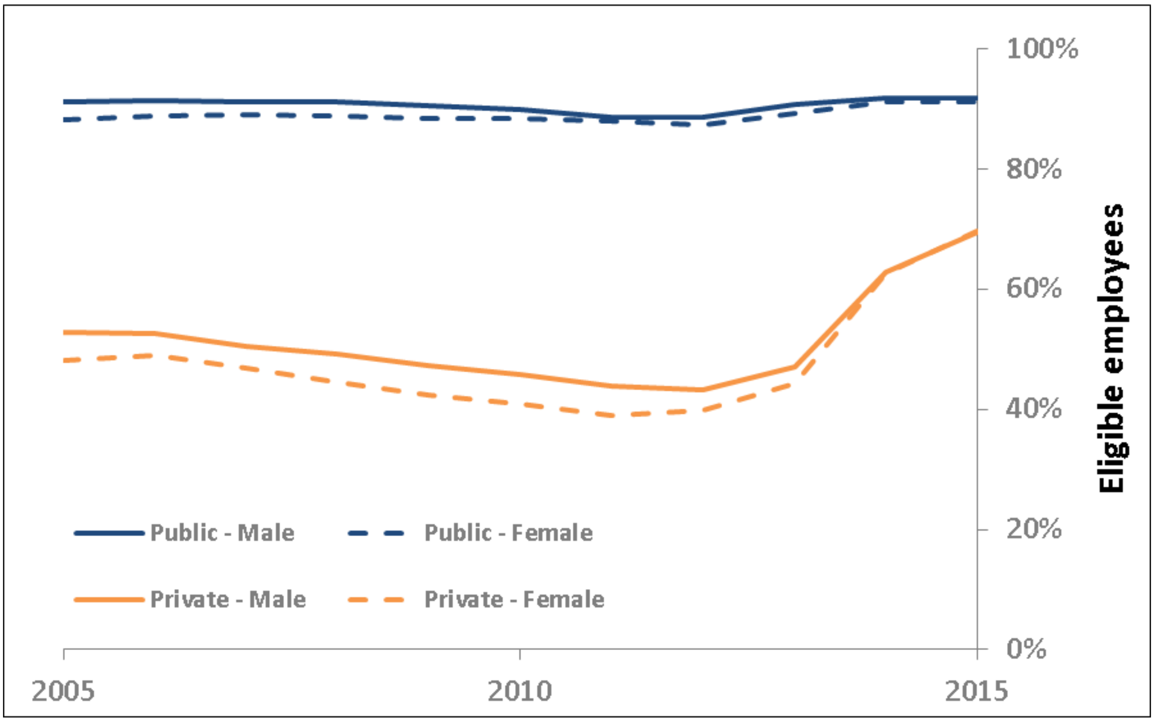
Source: DWP estimates derived from the ONS ASHE, GB, 2005–2015.

3.1.4 Gender

Figure 3.4 illustrates pension participation percentages by gender and sector. Overall, women still have higher participation rates than men (78 per cent compared to 73 per cent). This can be explained by the higher proportion of women employed in the public sector where participation is much higher. In the public sector in 2015, 92 per cent of men participate compared to 91 per cent of women. However, between 2012 and 2015 the overall gap in participation has narrowed from 7 percentage points to 5 percentage points.

Since the introduction of automatic enrolment, the private sector has seen the largest increases in participation and in 2015 there was very little gender gap in participation, with 69 per cent of men and 70 per cent of women participating. This represents a 26 percentage point increase for males and 30 percentage points for females since 2012.

Figure 3.4 - Eligible employees participating in workplace pensions, by gender and sector



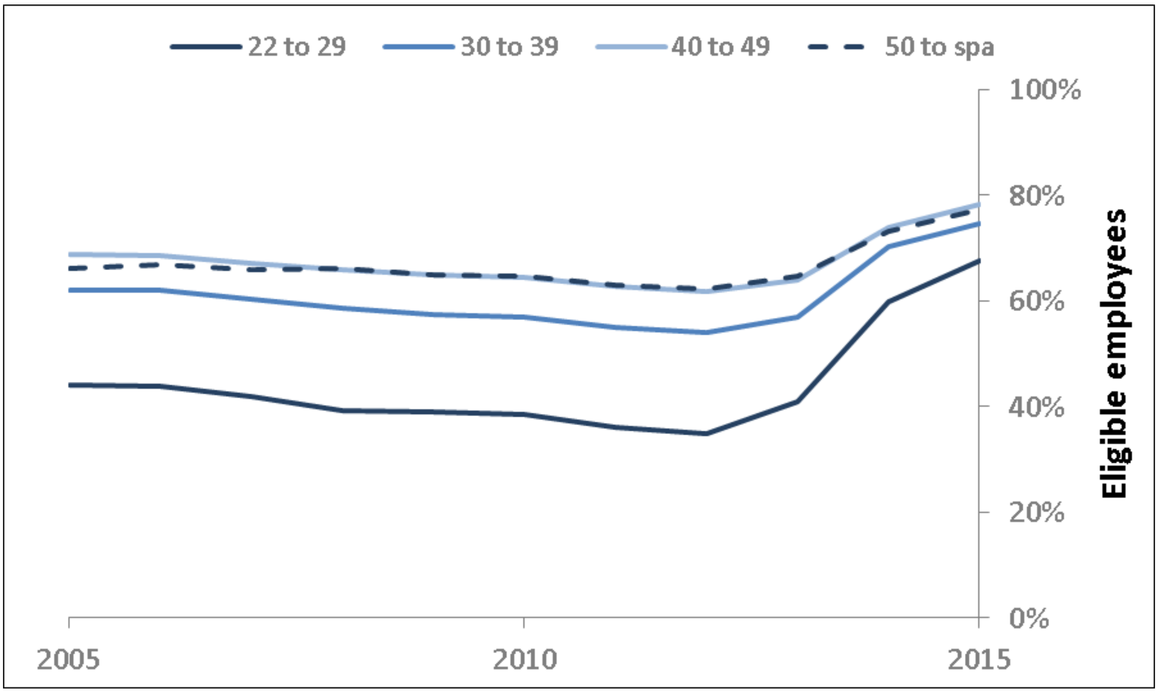
Source: DWP estimates derived from the ONS ASHE, GB, 2005–2015.

3.1.5 Age

Figure 3.5 shows pension participation of eligible employees by age group. Overall, participation has remained the highest for older employees, but in recent years there have been significant increases in participation amongst younger age bands and therefore some convergence in participation levels between age bands.

The greatest increase between 2014 and 2015 was seen in the youngest age band; those aged 22 to 29 with an 8 percentage point increase in participation to 68 per cent. All other age groups saw increases; ages 30 to 39 increased their participation by 4 percentage points to 75 per cent, 40 to 49 had a 4 percentage point increase to 78 per cent and those aged between 50 55 and State Pension age (SPa) also increased participation by 4 percentage points to 77 per cent.

Figure 3.5 - Eligible employees participating in workplace pensions, by age band



Source: DWP estimates derived from the ONS ASHE, GB, 2005–2015.

3.1.6 Economic status

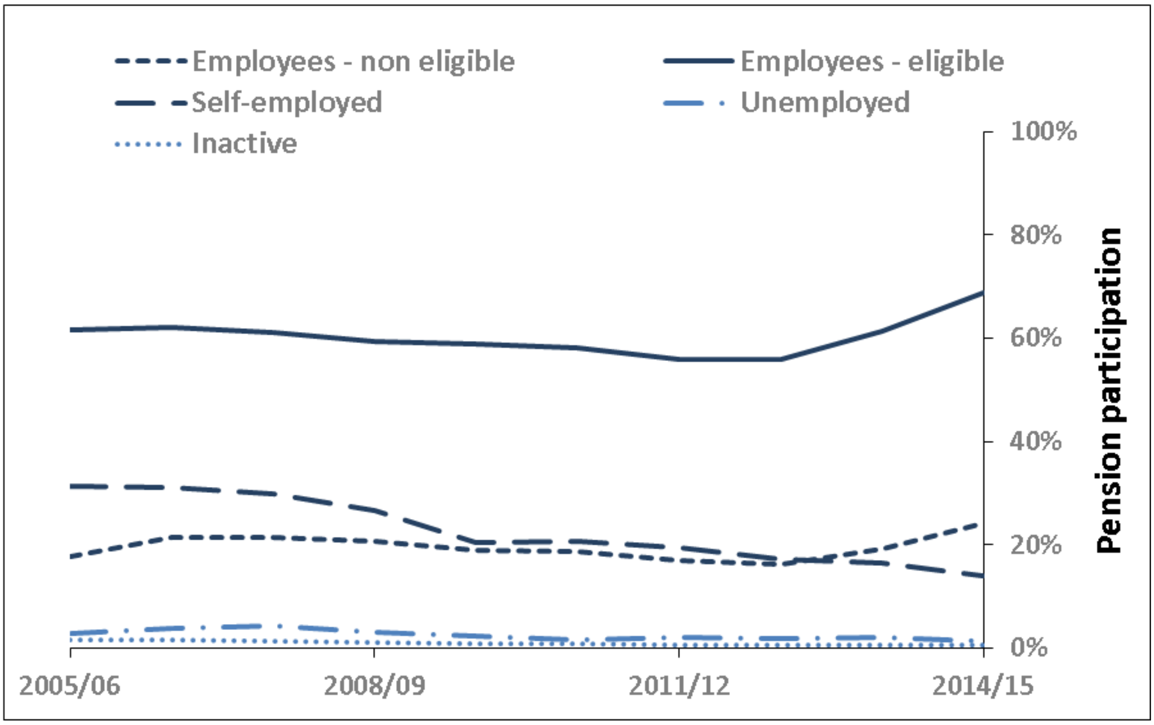
Figure 3.6 shows changes to pension participation for eligible employees compared to other economic status groups. Participation of eligible employees has increased in the past year from 61 per cent in 2013/14 to 69 per cent in 2014/15, reversing the decline in participation seen prior to automatic enrolment.

There has also been a slight increase in participation of ineligible employees, from 19 per cent in 2013/14 to 24 per cent in 2014/15[42]. Participation of self-employed workers has continued to fall, now at 14 per cent in 2014/15; self-employed workers are not captured by automatic enrolment[43]. Other categories have remained relatively stable, with participation of unemployed and inactive workers extremely low, as we would expect.

[42] Please also note the relevant analysis in section 3.3 showing that workplace pension participation among ineligible employees working for large and medium employers has increased by 18 percentage points.

[43] Individuals can usually join NEST if they are self-employed or the sole director of a company that does not employ anyone else (a group known as 'single person directors'). As at the end of March 2016, NEST had 1,923 members who were self-employed. Source: https://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Corp-SARA_2015_2016,PDF.pdf

Figure 3.6 - Participation in all pensions, by economic status



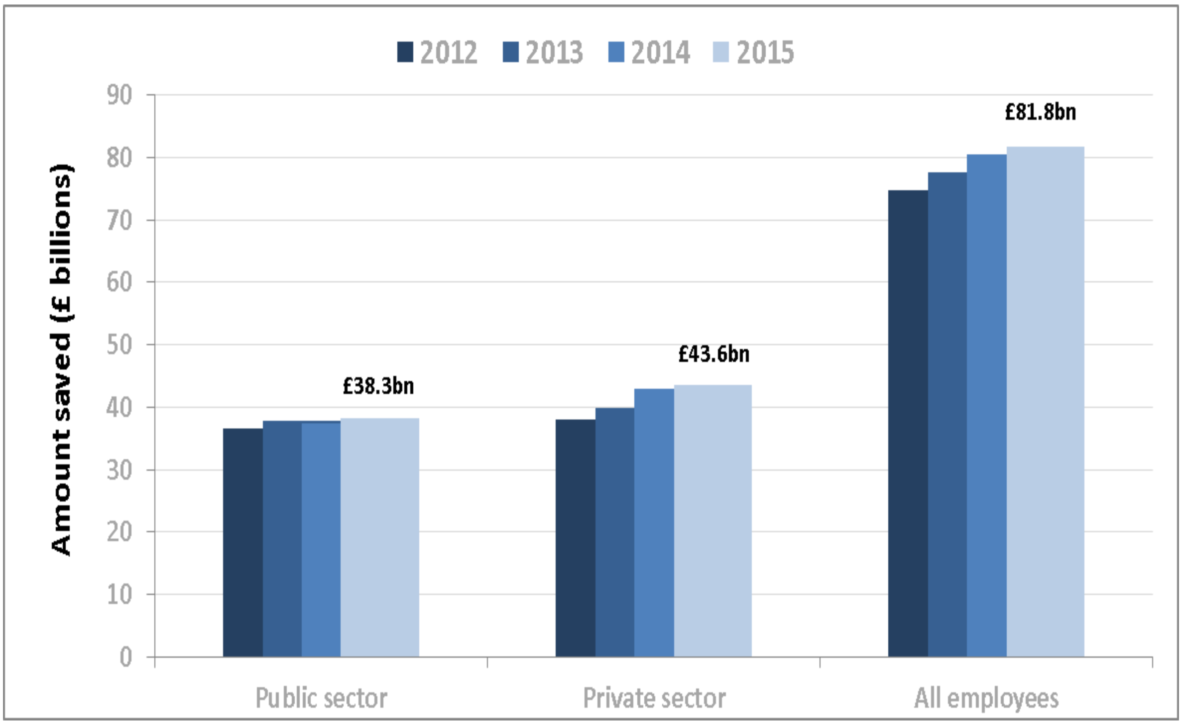
Source: Modelled analysis derived from the Family Resources Survey, UK, 2005/06 to 2014/15.

3.2 Trends in workplace pension saving

As shown in Table 3.1, the annual total amount saved by eligible employees across both sectors stands at £81.8 billion in 2015, which is an increase of £1.4 billion from 2014. Annual total amounts increased in both public and private sectors from 2014. The public sector increased by around £0.9 billion and the private sector by £0.6 billion.

Figure 3.7 shows the annual amount saved for eligible savers by sector (2012-2015). Since the introduction of automatic enrolment in 2012 the amount saved has increased each year. In the private sector there has been a £5.1 billion increase since 2012, to £43.6 billion saved in 2015. The public sector has seen a £1.7 billion increase over the same period.

Figure 3.7 – Amount saved for eligible savers, by sector



Source: DWP estimates derived from the ONS ASHE, GB, 2012–2015.

Overall in 2015, as in recent years, contributions by employees accounted for 30 per cent of saving, with employer contributions accounting for 60 per cent, and tax relief the remaining 10 per cent.

Within the public sector the amount saved per eligible employee continued to increase in 2015. In the private sector there was further decline between 2014 and 2015. This is likely to be a result of the increased number of savers in the private sector, many of whom will be making contributions at the minimum level. This is expected to change as a result of the planned minimum contribution rate increases, known as phasing, whereby total minimum contribution rates will increase in phases from the current 2 per cent of a band of workers' earnings, to 5 per cent from April 2018 and then 8 per cent from April 2019.

Table 3.1 - Trends in workplace pension saving

Total pension saving of eligible savers 2005-2015, by employer and employee contributions and sector

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Public sector											
Total saved (£ billions)	**39.1**	**32.3**	**34.0**	**35.5**	**36.4**	**39.1**	**37.4**	**36.6**	**37.9**	**37.4**	**38.3**
Employee contributions	11.0	8.4	8.7	9.3	9.1	10.1	9.6	10.1	11.2	11.6	11.7
Employer contributions	24.9	21.4	22.8	23.6	24.8	26.4	25.0	23.5	23.1	22.0	22.8
Tax relief	3.1	2.4	2.5	2.6	2.5	2.8	2.8	3.0	3.6	3.7	3.8
Per eligible saver (£s)	*8,082*	*6,709*	*6,929*	*7,202*	*7,129*	*7,297*	*7,218*	*7,591*	*7,591*	*7,932*	*8,176*
Per eligible employee (£s)	*7,221*	*6,022*	*6,219*	*6,463*	*6,364*	*6,489*	*6,366*	*6,661*	*6,814*	*7,250*	*7,473*
Private sector											
Total saved (£ billions)	**44.7**	**42.1**	**42.0**	**42.3**	**39.3**	**38.4**	**37.3**	**38.1**	**39.8**	**43.0**	**43.6**
Employee contributions	11.3	10.5	10.5	11.0	10.4	10.2	9.7	10.1	11.3	12.7	13.1
Employer contributions	30.1	28.3	28.1	27.9	25.7	25.0	24.4	24.7	24.6	26.0	25.9
Tax relief	3.5	3.3	3.3	3.5	3.2	3.1	3.2	3.3	3.9	4.3	4.5
Per eligible saver (£s)	*6,266*	*5,848*	*5,904*	*6,150*	*6,201*	*6,398*	*6,418*	*6,440*	*5,952*	*4,670*	*4,188*
Per eligible employee (£s)	*3,197*	*2,997*	*2,903*	*2,918*	*2,819*	*2,814*	*2,699*	*2,700*	*2,738*	*2,928*	*2,909*
All employees											
Total saved (£ billions)	**83.8**	**74.4**	**76.0**	**77.7**	**75.7**	**77.5**	**74.7**	**74.7**	**77.7**	**80.4**	**81.8**
Employee contributions	22.3	19.0	19.2	20.3	19.6	20.2	19.3	20.1	22.5	24.3	24.8
Employer contributions	55.0	49.7	51.1	51.4	50.4	51.3	49.5	48.2	47.6	48.1	48.7
Tax relief	6.5	5.7	5.8	6.0	5.8	5.9	6.0	6.3	7.5	8.0	8.3
Per eligible saver (£s)	*7,000*	*6,193*	*6,322*	*6,580*	*6,615*	*6,823*	*6,795*	*6,957*	*6,653*	*5,774*	*5,419*
Per eligible employee (£s)	*4,320*	*3,833*	*3,813*	*3,886*	*3,850*	*3,941*	*3,793*	*3,811*	*3,866*	*4,052*	*4,067*

Source: DWP estimates derived from the ONS ASHE, GB, 2005 to 2015

Notes:

1. Contribution information is only collected from 2005 onwards.
2. Annual earnings are uprated using Average Weekly Earnings values
3. Eligible saver is defined as those eligible employees who are saving into a workplace pension

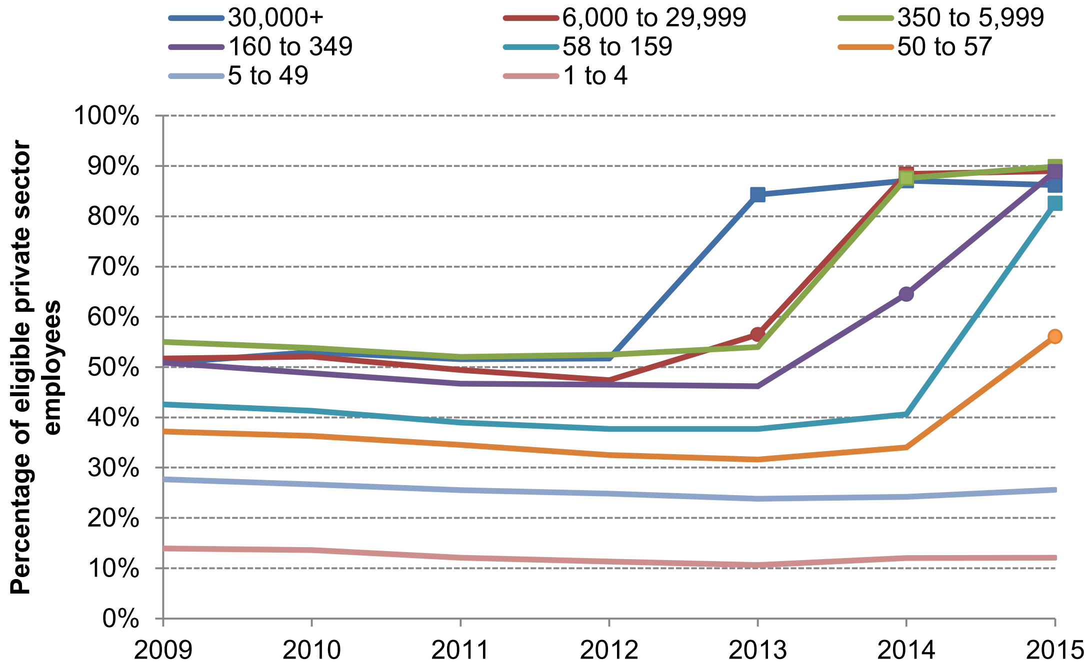
3.3 The impact of automatic enrolment on workplace pension saving

Recent analysis by the Institute for Fiscal Studies (IFS) Retirement Savings Consortium[44] estimates the effect of automatic enrolment on pension saving. This section sets out the key findings from that analysis. It should be noted that the IFS analysis is based on Annual Survey of Hours and Earnings (ASHE) data collected up to April 2015, at which point only 46,578 employers had declared compliance with their automatic enrolment duties, and no small and micro employers had yet staged, so findings relate only to eligible employees at large and medium employers. Unlike the analysis set out in sections 3.1 and 3.2, the IFS analysis focusses solely on employees working in the private sector.

Trends in workplace pension membership

Building on the workplace pension participation trends analysis set out in section 3.1, sub-group analysis of pension participation trends, by employer size, shows how such increases are closely associated with patterns of automatic enrolment roll-out. For example, as can be seen from Figure 3.8, pension participation rates increased first among the largest employers, following the pattern of largest employers being first to automatically enrol their employees.

Figure 3.8 - Workplace pension membership rates among private sector employees eligible for automatic enrolment, by employer size in 2012

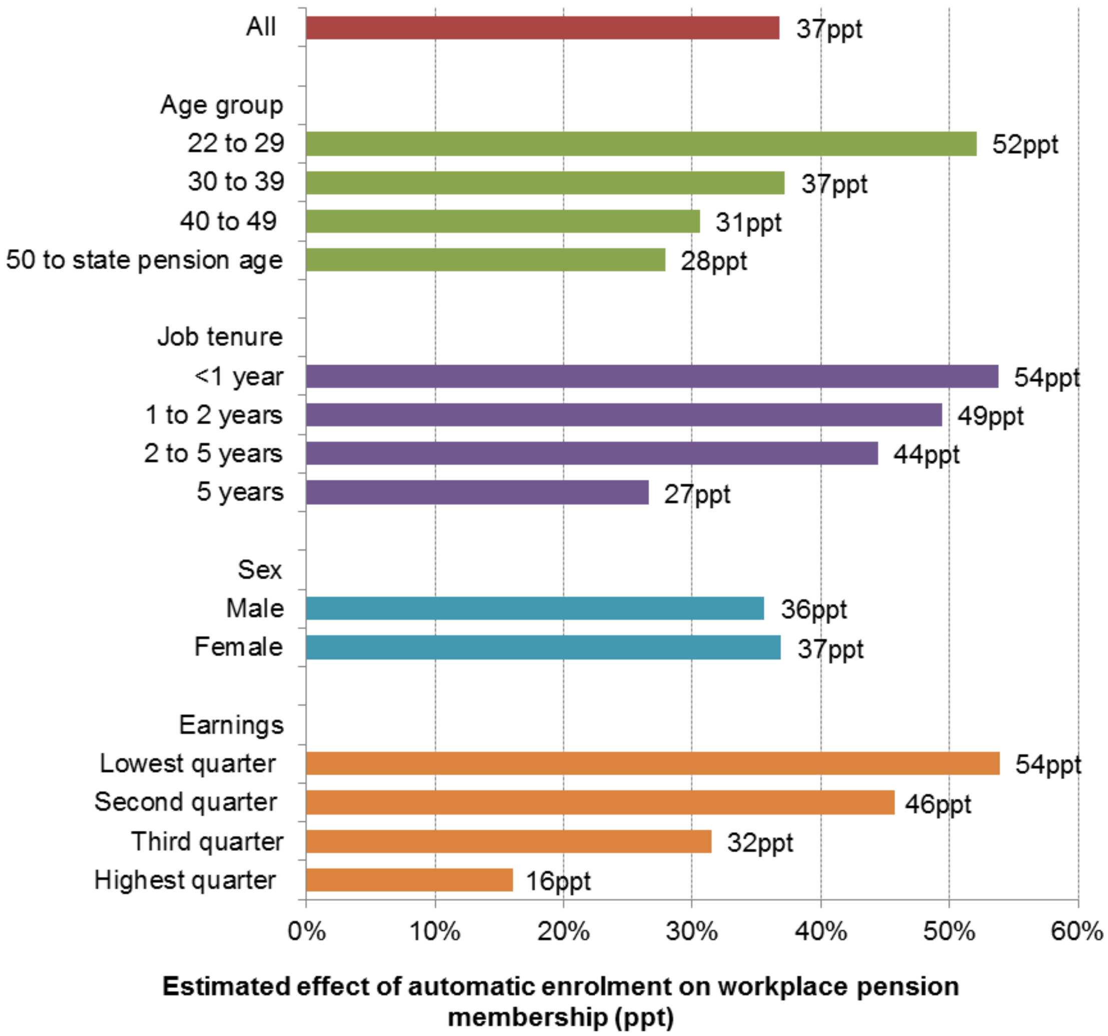


[44] Cribb, J. and Emmerson, C. (2016) *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK.* Institute for Fiscal Studies. At: https://www.ifs.org.uk/publications/8733

The impact of automatic enrolment on workplace pension coverage

Regression analysis estimates the causal impact of automatic enrolment on workplace pension membership among eligible private sector employees. Overall, the analysis suggests that automatic enrolment has, up to April 2015, increased workplace pension membership among eligible private sector employees by 37 percentage points. Further sub-group analysis suggests that automatic enrolment is having a larger impact on workplace pension membership among those groups for whom coverage, pre-reform, was lower, including lower earners and younger age groups (see Figure 3.9).

Figure 3.9 - Estimated impact of automatic enrolment on membership of workplace pensions among different subgroups of eligible private sector employees



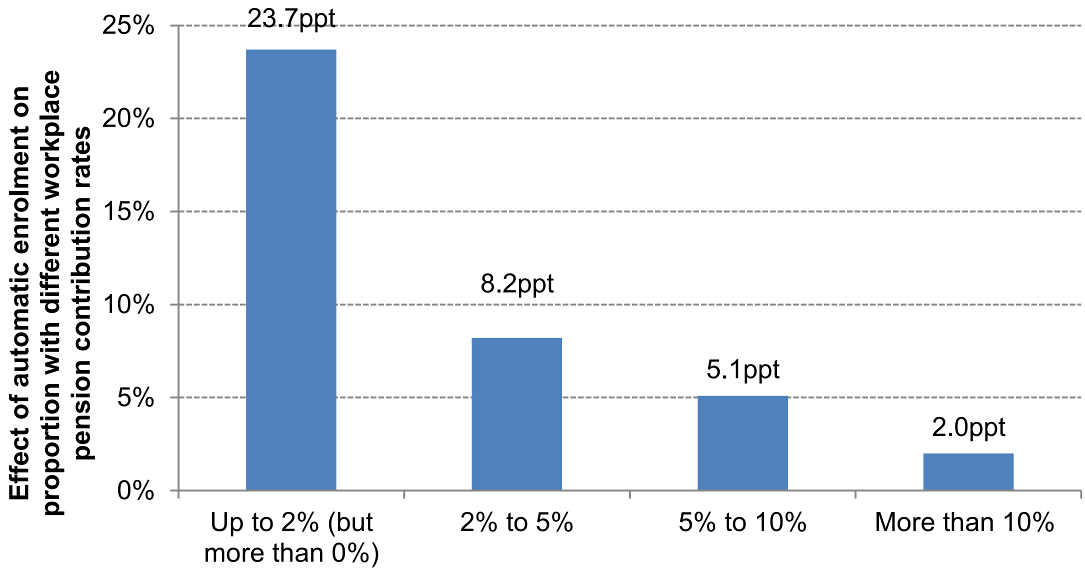
The impact of automatic enrolment on contributions to workplace pensions

Although automatic enrolment has had a substantial impact on workplace pension membership, its impact on amounts saved may not be large because the default minimum contribution rate levels are currently 2 per cent of qualifying earnings, of which 1 per cent is contributed by the employer. Indeed, there is a risk that automatic enrolment may have a negative impact on overall contribution rates, due to some employees saving less than they otherwise would have done because of the salience of the default minimum contribution rate.

Despite this risk, estimates derived using ASHE data suggest that automatic enrolment has actually increased total contributions to workplace pensions by 1.05% of total earnings, with employer contributions being increased by 0.6% and employee contributions by 0.5%. This means that average contributions climbed to 8.1% of total earnings by April 2015, up from 7.0% in April 2012.

Furthermore, the analysis suggests that automatic enrolment has made greater levels of pension contributions more common. For example, the proportion of people with a total contribution rate of between 5% and 10% of earnings has increased by 5.1 percentage points (see Figure 3.10), revealing some employers are contributing more than they are mandated to by the government.

Figure 3.10 - Effect of automatic enrolment on distribution of total contribution rates to workplace pensions, among eligible private sector employees

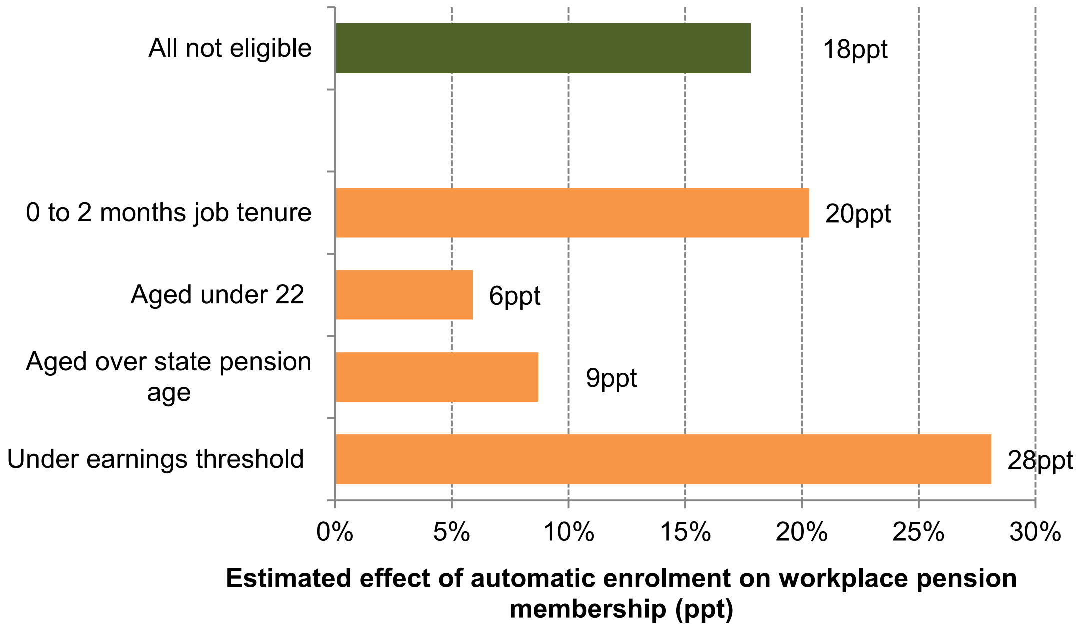


This does not rule out the possibility that the workplace contributions of some employees have been "levelled down" by automatic enrolment, as it could be that some employers are contributing less as a result, but that if this is happening then the effect is outweighed by other employers enrolling their employees at contribution levels above the minimum. However, the analysis provides no evidence of overall employer contributions being reduced even when looking at groups, such as younger workers or those who have worked for their firm for less than a year, among whom this might be most likely.

The impact of automatic enrolment on workplace pension membership of those not eligible

Analysis of ASHE data suggests that coverage of workplace pensions has increased significantly amongst ineligible employees (see Figure 3.11). This includes evidence of a particularly large increase in workplace pension membership among those earning below £10,000 a year, of 28.1 percentage points, and among those who have been in employment for less than three months, of 20.3 percentage points. This could be due to individuals opting in, or employers choosing to offer workplace pensions to all employees regardless of eligibility, or a combination of the two. It is not possible within the ASHE data to establish which of these effects is driving the results, although it should be noted that the Employers' Pension Provision Survey 2015 found that in total, five per cent of ineligible workers had chosen to opt in[45].

Figure 3.11 - Effect of automatic enrolment on pension membership rates of private sector employees who are not eligible for automatic enrolment



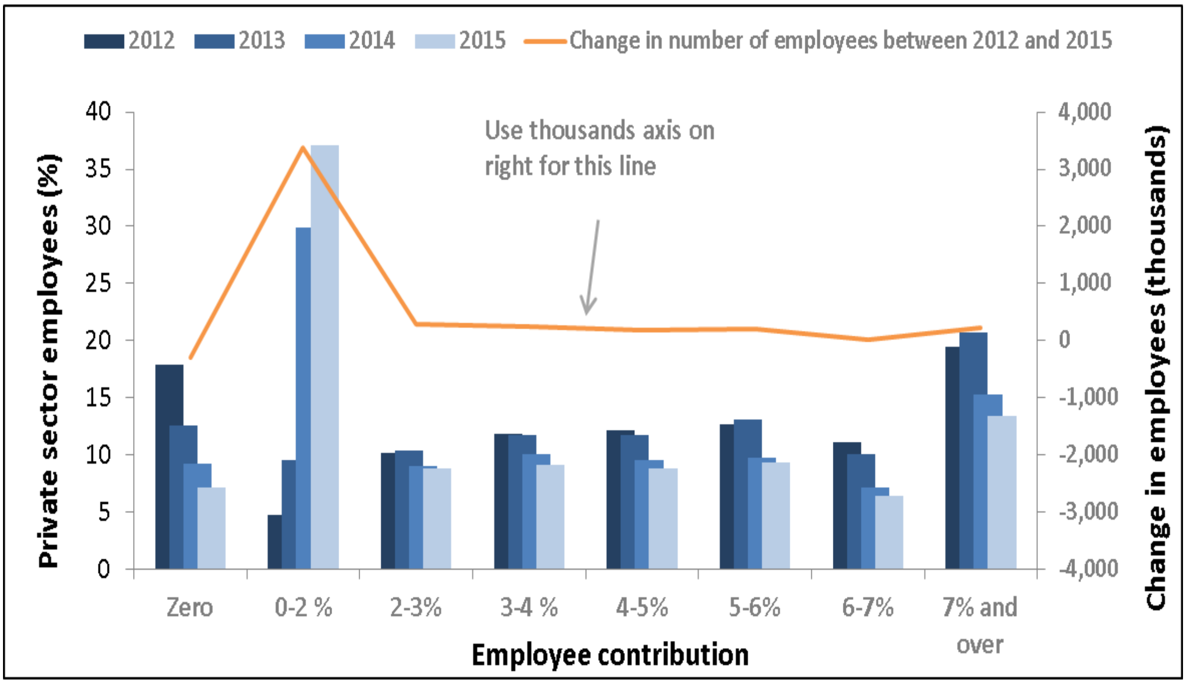
[45] DWP (2016) *Employers' Pension Provision Survey 2015.* At: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504346/rr919-employers-pension-provision-2015.pdf

3.4 Employer contributions and levelling down

This section outlines trends in employer pension contributions over time, using data from ASHE and the Employers' Pension Provision survey (EPP) 2015 to explore how employer contributions have changed and how they are likely to change in future.

Figures 3.12 and 3.13 show the levels of workplace pension participation for eligible employees in the private sector from 2012 to 2015, broken down by employee and employer contribution rates respectively. The two figures show a considerable increase in the proportion of private sector employees contributing above 0 and below 2 per cent, and their employers contributing above 0 and below 4 per cent on their behalf, which is highly likely to be a result of automatic enrolment where the legal minimum for employer contributions is currently set at 1 per cent. There has been a slight increase in the number of employees contributing above 2 per cent and receiving contributions above 4 per cent. There has also been a reduction in the number of employees not making any contributions to their workplace pension.

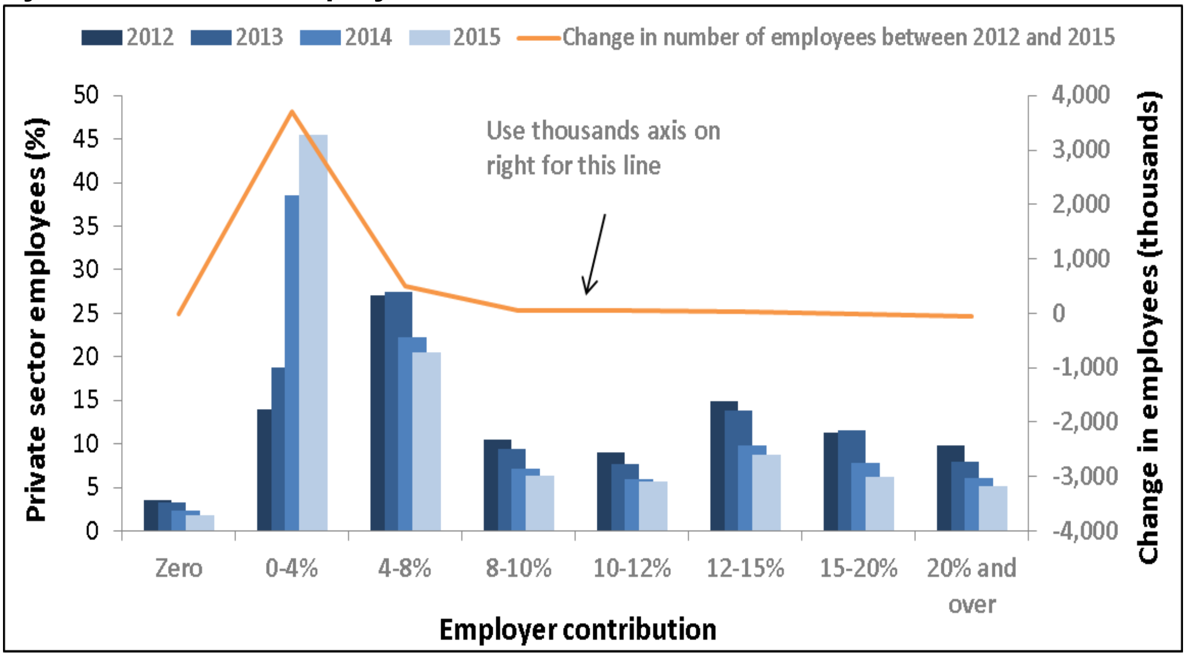
Figure 3.12 - Private sector employees with workplace pensions: percentages by banded rate of employee contribution, 2012-2015



Source: ONS estimates derived from ASHE.

Note: Figures for number of employees are for indicative purposes only and should not be considered an accurate estimate of employee job counts.

Figure 3.13 - Private sector employees with workplace pensions: percentages by banded rate of employer contribution, 2012-2015



Source: ONS estimates derived from ASHE.

Note: Figures for number of employees are for indicative purposes only and should not be considered an accurate estimate of employee job counts.

3.4.1 Levelling down strategies

In order to manage the costs of automatic enrolment, some employers may choose to reduce the generosity of contributions or outcomes for existing pension scheme members. This is known as 'levelling down'. The evaluation aims to monitor the extent to which this happens as result of automatic enrolment, however, it is important to note the data suggests that at least some forms of levelling down (see Box 3.1) were already taking place before the introduction of automatic enrolment.

EPP 2015 asked employers about their likely responses to increased contribution costs from the reforms. Of the 66 per cent of employers who said that their contribution costs would increase as a result of the reforms, 81 per cent said that they did not plan to absorb these increased costs through changes to their existing pension scheme or contribution rates, 15 per cent planned to absorb them through changes to their existing pension scheme and 4 per cent planned to absorb them through reductions in their existing members' contribution rates.

Box 3.1 shows nine different levelling down strategies that employers could use. In analysing the data, eligible employees who are existing members of a workplace pension can be placed in one of six 'destinations' as described in Box 3.2.

Box 3.1 Strategies employers could use to level down contributions

a) Lower employer contributions for a qualifying scheme for existing members as well as new members.

b) Change definition of pensionable pay to adjust the amount of contribution paid.

c) Lower employer contributions by paying contributions as a lump sum, rather than as a proportion of earnings.

d) Increase employee contributions to offset reduction in employer contributions.

e) Freeze the level of pensionable pay for employees.

f) Defined Benefit (DB) schemes could be changed from final salary to career average or hybrid schemes, or to a Defined Contribution (DC) scheme.

g) Accrual rates of DB schemes could be lowered.

h) Operate a different scheme for new scheme joiners with lower employer contributions.

i) Operate a different scheme to certain employees with different contribution rates. For example, higher contributions restricted to management grades.

Box 3.2 Employee destinations for ASHE analysis of levelling down

No levelling down: These employees show no evidence of levelling down of employer contributions.

Levelling down: These employees show evidence that levelling down has taken place.

Evidence indeterminate: There is not enough evidence available to make a judgement about whether levelling down has occurred or not.

Pension saving stopped: Employees in this group must be saving in a workplace pension in Year 1 and must not be saving in a workplace pension in Year 2.

Pension type switched: Employees in this group must be saving in a workplace pension in Year 1 and saving in a different type of workplace pension in Year 2.

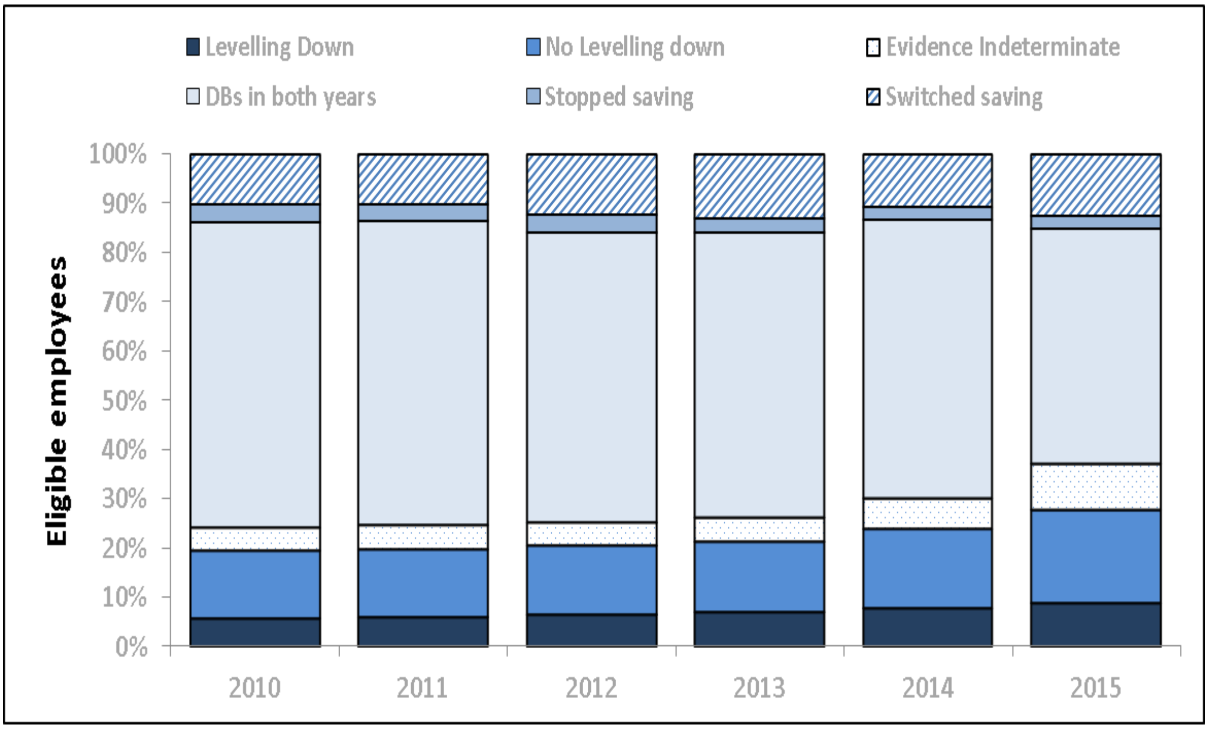
DB: DB schemes in both years. This includes public sector DB schemes.

3.4.2 Levelling down for all eligible savers

In this analysis each year shown represents the difference between that year and the previous year. For example, 2015 shows the difference between 2014 and 2015.

Figure 3.14 shows the rate of levelling down, as defined here, over time from 2010. The data suggests that prior to 2012, employers were adopting levelling down strategies (see Box 3.1) for around 6 per cent of eligible savers. This has risen to 9 per cent of eligible savers in 2015. The largest change was observed in the proportion of eligible savers with DB schemes in both years which fell from 62 per cent in 2010 to 48 per cent in 2015.

Figure 3.14 – Levelling down: Eligible savers' employer contributions to a workplace pension



Source: DWP analysis of ONS un-weighted longitudinal ASHE, 2009-2015

Whilst this analysis shows that the rate of levelling down, as defined, has increased slightly since 2012, the recent IFS analysis[46] does not find any evidence that this is a result of automatic enrolment. It is likely that other factors have driven employers to try to make savings on their pension costs. We intend to review this analysis in 2017 when the ASHE 2016 becomes available which will, for the first time, include an automatic enrolment indicator.

3.5 Persistency of saving

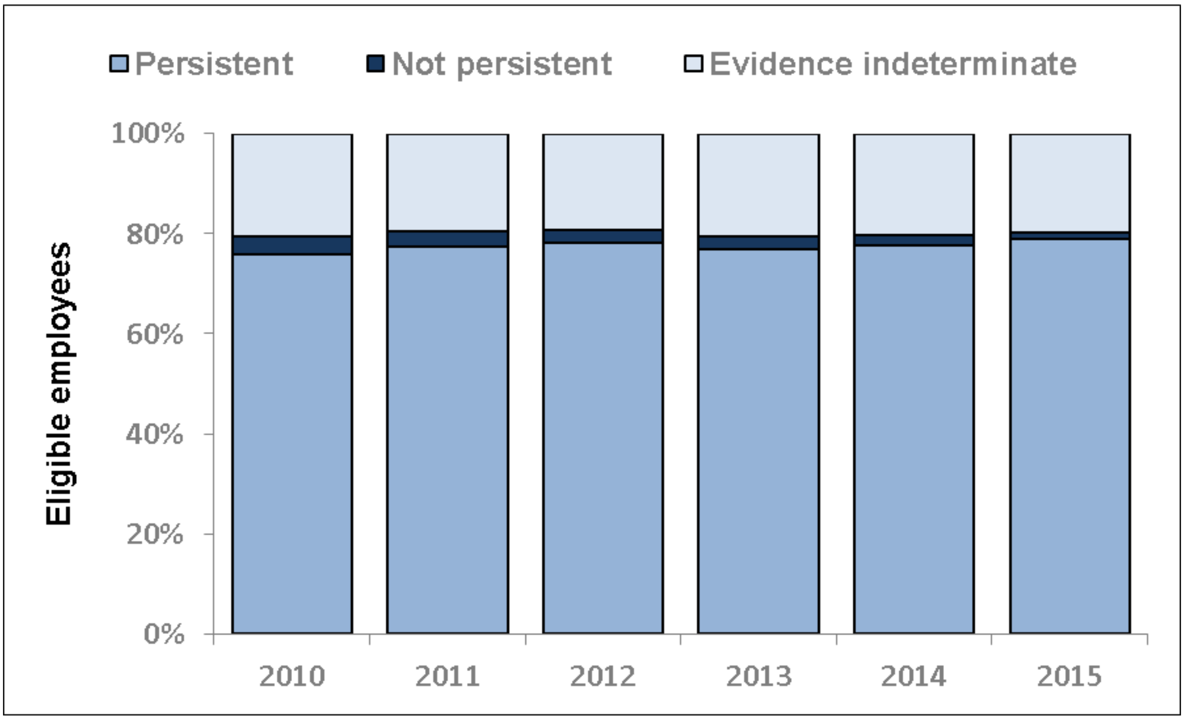
In this report, persistency of saving is defined as saving into a pension in at least three out of a period of four years. Figure 3.15 shows the estimates of persistency based on the number of years an eligible saver has been saving in a four-year period. This means the 2015 estimate is based on the number of years an employee

[46] Cribb, J. and Emmerson, C. (2016) *What happens when employers are obliged to nudge? Automatic enrolment and pension saving in the UK.* Institute for Fiscal Studies. At: https://www.ifs.org.uk/publications/8733

has been saving between 2012 and 2015 and this measure will be slow to reflect the effect of the increasing trend in workplace pension participation[47].

Figure 3.15 illustrates that, overall, eligible employees are continuing to save persistently, at 79 per cent in 2015, a slight rise from 76 per cent in 2010. The proportion of eligible savers not saving persistently was 1 per cent in 2015, and for the remaining 20 per cent there is an indeterminate amount of evidence to categorise them as either persistent or non-persistent.

Figure 3.15 – Persistency of eligible employees participating in workplace pensions



Source: DWP estimates derived from the ONS un-weighted longitudinal ASHE, GB, 2010–2015.

Notes:
1. This analysis shows the persistency measure from 2010, as the ASHE sample was cut in the 2007 and 2008 surveys and resulted in employees for these years moving into the evidence indeterminate group due to a lack of data.

2. An eligible employee can disappear from the cohort either through stopping saving, leaving the labour market, staying with or moving to an employer who does not return the ASHE questionnaire.

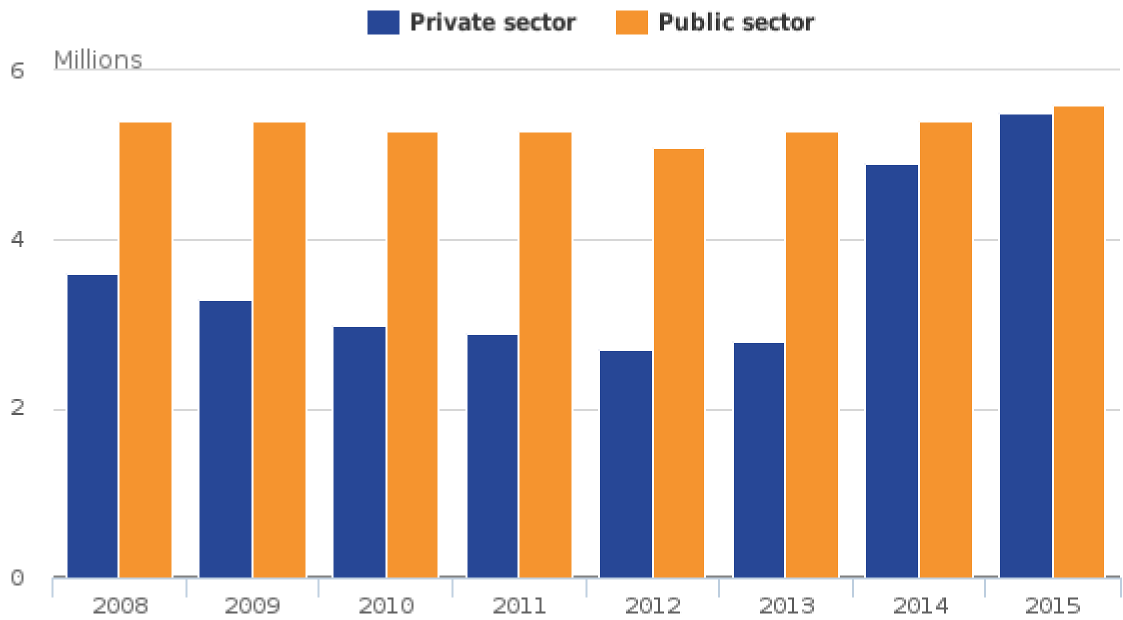
[47] To see a breakdown of persistency of saving by sector, consult DWP (2016). *Official statistics on workplace pension participation and saving trends for eligible employees.* At: https://www.gov.uk/government/collections/workplace-pension-participation-and-savings-trends

3.6 Trends in occupational pension scheme provision by type of scheme

The Occupational Pension Schemes Survey (OPSS) is an annual survey of occupational pension schemes in the UK, run by the Office for National Statistics (ONS)[48]. Unlike much of the analysis set out in previous sections, the OPSS covers all employees and not just those eligible for automatic enrolment.

Overall, the survey suggests that total membership[49] of occupational pension schemes in the UK was 33.5 million in 2015, the highest level recorded by the survey, representing an increase of 10% compared with 2014 (30.4 million). As shown by Figure 3.16, active membership[50] of occupational pension schemes was 11.1 million in 2015, split between the private (5.5 million) and public sector (5.6 million).

Figure 3.16 – Active membership of occupational pension schemes by sector, 2008 to 2015



Source: ONS (2016) Occupational Pension Schemes Survey, UK: 2015.

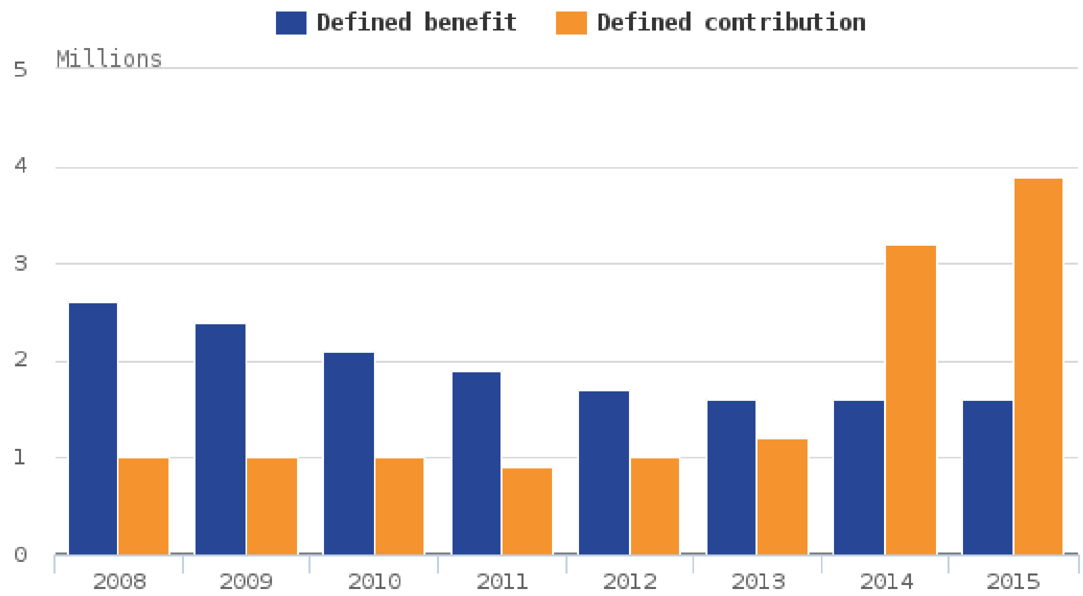
[48] ONS (2016) *Occupational Pension Schemes Survey, UK: 2015*. At: http://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/pensionssavingsandinvestments/bulletins/occupationalpensionschemessurvey/2015

[49] Total membership of occupational pension schemes consists of: 1) active members (current employees who would normally contribute); 2) pensioner members (those receiving pension payments); 3) members with preserved pension entitlements (members who are no longer actively contributing into the scheme but have accrued rights that will come into payment at some point in the future).

[50] The active members of an occupational pension scheme are those who are contributing to the scheme, or having contributions made on their behalf. They are usually current employees of the sponsoring employer.

Looking specifically at private sector occupational pension membership by type of scheme, the survey suggests that active membership of private sector defined contribution (DC) schemes, which remained around 1.0 million since from 2008 to 2012 (Figure 3.17), rose to 3.2 million in 2014 and 3.9 million in 2015, following the roll-out of automatic enrolment. In contrast, active membership of private sector defined benefit (DB) schemes has remained at around 1.6 million over the last 3 years. While employers could use DB schemes for automatic enrolment, the minimum requirements for a qualifying scheme focus on DC provision.

Figure 3.17 - Active membership of private sector occupational pension scheme by benefit structure, 2008 to 2015



Source: ONS (2016) Occupational Pension Schemes Survey, UK: 2015.

4 Next steps

4.1 Introduction

This chapter sets out next steps for the evaluation of automatic enrolment within the wider context of the implementation of the policy.

4.2 2017 Review

The Review of Automatic Enrolment in 2017[51] provides an opportunity to build on success to date and take stock of the existing evidence base and evaluation strategy. The main focus of the review will be to ensure that automatic enrolment continues to meet the needs of individual savers.

The review will look at existing coverage and consider the needs of those not currently benefiting from automatic enrolment, including:

- employees with multiple jobs who do not meet the criteria for automatic enrolment;
- reviewing the automatic enrolment thresholds, namely, the earnings trigger, qualifying earning bands and the age criteria; and
- how the growing self-employed population can be helped to save for their retirement.

There will also be an opportunity to consider whether the technical operation of the policy is working as intended. In doing this, consideration will be given to the level of burden placed on employers, and any policies which disproportionately affect different categories of employers or could be further simplified.

The review will be supported by an advisory board, enabling experts across academia and industry to provide insight. The Department will confirm membership of the board and the terms of reference in early 2017. The aim is to publish a report with policy recommendations towards the end of 2017.

4.3 Forthcoming research

In 2016, we have begun a new programme of research which includes a focus on the implementation of automatic enrolment amongst small and micro employers. Small (5-49) and micro (1-4) employers began to be subject to their duties from June 2015,

[51] A written statement regarding the Review being published alongside this evaluation report is available here: http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statements/

and by the end of March 2016 nearly 60,000 small and micro employers had been through the whole process of automatically enrolling staff and declaring compliance.

For the first stage of the research, we have commissioned qualitative research with small and micro employers who have declared compliance with their duties to explore their experiences, views and behaviours relating to automatic enrolment. As part of this, we are seeking to speak to their employees, including both those who stayed in the scheme and those who opted out, to explore drivers of behaviour. This study follows on from similar previous qualitative research with employers who staged in 2014[52], and will report in 2017.

To follow the qualitative research, we are commissioning a large-scale survey of small and micro employers to quantify our evidence relating to small and micro employers who have declared compliance with their duties. Alongside this, we are also commissioning the 2017 Employers' Pension Provision survey, which will update key measures from the most recent (2015) Employers' Pension Provision survey[53], including in relation to evaluation questions (EQ) 6: 'To what extent is delivery of the Workplace Pension Reforms achieved with a minimal burden on employers?'

Findings from each of these studies will be used to inform the 2017 Review.

4.4 Automatic enrolment evaluation refresh

Since 2011, the evaluation of automatic enrolment has been structured according to an evaluation strategy which set out eight main evaluation questions. In the context of the 2017 Review, it would be timely to refresh the evaluation approach in order to ensure it continues to reflect the key evidence needs of the Department and its strategic delivery partners. The outcomes from this refresh will be reflected in the design and content of the 2017 automatic enrolment evaluation report, as will the findings from the forthcoming research discussed above.

Building on our early work with NEST, we are keen to work with other pension providers to ensure that we have a holistic picture of the industry and making use of the wide range of research and analysis produced by the industry. This work will inform the scope of next year's automatic enrolment evaluation report.

[52] DWP (2015) *Automatic enrolment: qualitative research with employers staging in 2014.* At: https://www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-employers-staging-in-2014

[53] DWP (2016) *Employers' pension provision survey 2015.* At: https://www.gov.uk/government/publications/employers-pension-provision-survey-2015

Appendix A - Evaluation questions

EQ1: Were the Workplace Pension Reforms delivered to the planned timescales?

EQ1.1. Was NEST (National Employment Savings Trust) introduced with the capacity to fulfil its Public Service Obligation by the end of staging within planned timescales?

EQ1.2. Was the Employer Compliance Regime function of the Pensions Regulator introduced for the onset of employer duty, with the capacity to regulate employers through implementation and steady state?

EQ1.3. Was the Workplace Pension Reforms communication strategy delivered to the planned timescales?

EQ2: Does NEST accept all employers who choose the scheme, while offering low costs to members and remaining financially viable?

EQ2.1. Does NEST accept all employers who choose the scheme to meet their employer duties?

EQ2.2. Is the membership sufficient to secure the long term financial stability of NEST?

EQ3: Do employers know about, understand and comply with their employer duties?

EQ3.1. To what extent are employers aware of their duties and know how to discharge them?

EQ3.2. How many employees are treated in a ‘compliant way’ by their employer?

EQ3.3. To what extent do employers have arrangements with a qualifying scheme?

EQ3.4. To what extent is employer behaviour influenced by their attitudes, awareness and levels of understanding of the reforms?

EQ3.5. To what extent are employers aware of the enforcement powers available to deal with non-compliance and the approach the Pensions Regulator intends to take?

EQ3.6. To what extent do detection and enforcement activities result in non-compliant employers becoming compliant and do they support a broader culture of compliance?

EQ4: To what extent do the Workplace Pension Reforms increase the number of individuals saving in workplace pensions?

EQ4.1. To what extent are individuals saving persistently in a workplace pension?

EQ4.2. How many individuals that were automatically enrolled have opted out of a qualifying scheme?

EQ4.3. How many individuals that were automatically enrolled have voluntarily ceased saving in a qualifying scheme?

EQ4.4. Why do individuals opt out or voluntarily cease saving in a qualifying scheme?

EQ4.5. How many individuals who are not eligible for automatic enrolment have opted in?

EQ4.6. To what extent are individuals accepting of the need to save in a workplace pension?

EQ4.7. To what extent do individuals recognise the benefits of saving into a workplace pension?

EQ4.8. To what extent can individuals access the information on automatic enrolment and workplace pension saving?

EQ4.9. To what extent can individuals understand information they are given on automatic enrolment and workplace pension saving?

EQ5: To what extent do the Workplace Pension Reforms increase the amount being saved in workplace pensions?

EQ5.1. Have employers who were contributing above the minimum for existing members prior to the introduction of the reforms reduced contributions?

EQ5.2. How much more are individuals contributing to total household savings?

EQ6: To what extent is delivery of the Workplace Pension Reforms achieved with a minimal burden on employers?

EQ6.1. What are the contribution costs for employers of complying with their duty?

EQ6.2. What are the administrative costs for employers of complying with their duty?

EQ6.3. How do employers respond to the costs incurred as a result of the employer duty?

EQ6.4. How do employers make decisions around which qualifying scheme to enrol members and how much to contribute?

EQ6.5. What are the views and attitudes of employers to the level of burden resulting from the reforms?

EQ7: How has the pensions industry reacted to the Workplace Pension Reforms?

EQ7.1. How has the pensions landscape changed since the reforms?

EQ7.2. What changes have there been to prevailing charge structures and levels since the reforms?

EQ7.3. What burdens have providers faced following the announcement of the reforms?

EQ7.4. To what extent do providers follow the Pensions Regulator's guidance on the reforms?

EQ8. What are the wider economic impacts of the Workplace Pension Reforms?

EQ8.1. Does the current policy present any barriers to saving?

EQ8.2. What are the costs to the Exchequer of employers' responses?

EQ8.3. What are the unintended consequences of the reforms?

Appendix B - Sources of information

This evaluation report draws on the following sources of information:

DWP Employers' Pension Provision Survey (EPP), Biennial, 2007 onwards on a consistent basis, GB: information on the nature of pension provision in the private sector, extent of employee membership, employee and employer contribution rates, reasons for non-provision of pensions, planned changes and employers attitudes and likely reactions to the reforms. The survey has also been used to indicate the level of opt out and changes in the pension landscape as a result of the reforms.

DWP Family Resources Survey (FRS), Annual, 2003/04 onwards, UK: information on the incomes and circumstances of private households. It enables us to monitor information for all adults (i.e. not just employees) against a wide range of demographics and personal indicators. The FRS provides information on individuals who choose to save in a workplace pension by protected characteristics not covered by ASHE, such as ethnicity and disability. Comparisons with analyses prior to 2015 should be treated with caution owing to updates following a methodological issue identified in 2015. Details of the response to an earlier methodological issue identified in 2010 can be found here.

National Employment Savings Trust Corporation annual report and accounts: this report uses findings from the NEST annual report and accounts, alongside more recent figures published in the 2016 DWP call for evidence '*NEST: Evolving for the Future',* to illustrate progress regards to the key achievements of NEST.

ONS Annual Survey of Hours and Earnings (ASHE), 1997 onwards, GB: the analysis in this report uses both the cross-sectional and the un-weighted longitudinal ASHE. Since ASHE is completed by the employer for their employees, it is one of very few data sources that enable us to accurately monitor trends in participation by industry and sector for all types of employer-sponsored pension schemes.

ONS Occupational Pension Schemes Survey (OPSS), 2004 onwards, UK: information on the nature of occupational pension provision, including membership of schemes, nature of benefits provided and contributions paid, based on a sample of schemes in the public and private sectors.

TPR Automatic Enrolment: Commentary and Analysis, Annual, 2013 onwards: information relevant to the regulator's role in maximising compliance with the employer duties, including analysis of the declaration of compliance data, research on employer awareness and engagement, pension schemes used for automatic enrolment, compliance and enforcement activity.

TPR Compliance and Enforcement bulletin, Quarterly, July 2014 onwards, UK: information about the number of cases and powers the regulator has used relating to automatic enrolment and associated employer duties.

TPR Employer Tracking Survey, Biannual, Spring 2011 onwards, UK: survey information from employers to understand knowledge of, and attitudes towards, the reforms. Last year the survey was changed to also track the awareness and effectiveness of the regulator’s advertising campaign. The information is used to monitor employer awareness, understanding and activity in relation to the new duties.

TPR Intermediary Tracking Survey, Biannual, Autumn 2011 onwards, UK: survey information from intermediaries to monitor awareness, understanding and activity in relation to workplace pension reforms.

TPR Monthly Declaration of Compliance Reports, Monthly, April 2013 onwards, UK: information on the number of employers who have met their duties by declaring their compliance (previously known as registration) with the regulator and the number of workers enrolled.