

# Automatic enrolment

Commentary and analysis: April 2015 – March 2016

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## Foreword

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

By the end of March 2016, more than 6.1 million workers had been successfully automatically enrolled since the reforms began in 2012 – an increase of nearly 1 million workers from 2015, and 3.1 million from 2014. A total of 110,103 employers had been through the whole process, including 59,985 small and micro employers. Compliance levels among all employers remain extremely high; more than 95% of the first group of small and micro employers who were required to complete their duties have complied with the law.

We have previously stated that automatic enrolment (AE) is helping to turn around the decade-long decline in pension provision, and now we see 66% of all employees are active members of a pension scheme, compared with just 47% in 2012. This continues to suggest that pension saving is now becoming the norm.

This year has been a pivotal one for AE. It marked the point of inflection as we moved to a focus on small and micro employers, having completed the initial roll out to large and medium employers.

One of our key challenges over the past year has been to engage hundreds of thousands of small and micro employers who began to prepare for AE. These employers were bound to be the least prepared, have less knowledge of pensions and indeed of us, at TPR.

We have transformed the way we have approached these employers, many of whom are not organisations at all but simply individuals who happen to employ someone, perhaps in the home or as a personal care assistant. We recognised that we need to target these employers in new and innovative ways.

To reach out to this new audience, we launched a nationwide campaign with the Department for Work and Pensions (DWP) in October including television, radio, print, online and outdoor advertising featuring 'Workie' – the physical embodiment of the workplace pension. The campaign came with the hashtag #dontignoreit.

I would like to recognise the hard work and commitment of many organisations who support employers, from employer representative bodies to professional and trade bodies. The tremendous efforts that these organisations have put in over the last year have made a huge difference.

Thank you for taking the time to read this report – I hope you find it useful and informative. We're always keen to hear your suggestions, and if you'd like to feed back on this publication please use our questionnaire at <http://bit.ly/2a4U7PG>.



Charles Counsell  
Executive Director, Automatic Enrolment

# Executive summary

## Automatic enrolment: results so far

Proportion of UK employees in a workplace pension scheme:



By March 2016 **66%**

Total number of UK employees automatically enrolled:



By 2016 **6.1 million**



By 2015 **5.2 million**



By 2014 **3 million**



By 2013 **1 million**

**64,283** 

employers completed their declaration of compliance between April 2015 and March 2016, which represents

**58%**

of total declarations of compliance to date

**95%**

of the first small and micro employers required to put their staff into a pension have now complied with the law

**3%** 

Average employer contribution for staged employers

**97%** 

Of the 3 million workers enrolled into master trusts, around 97% are in one that has achieved assurance status

## Awareness, understanding and engagement



1.4m  
letters sent to UK employers about their staging dates



1.2m  
unique visitors to our automatic enrolment webpage



900k  
employers used our staging date tool



185k  
employers used our new Duties Checker tool



397  
speaking events conducted across the UK

### Small and micro employers

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

#### Awareness



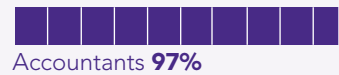
#### Understanding



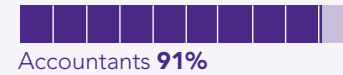
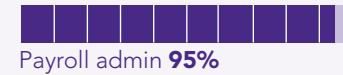
### Intermediaries

Awareness of automatic enrolment is nearly universal.

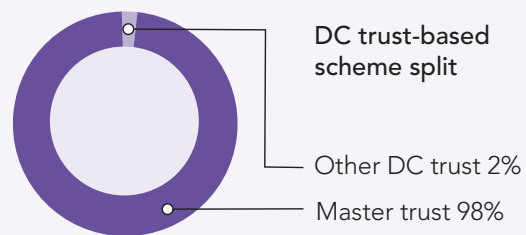
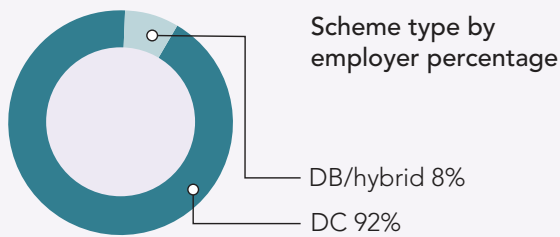
#### Awareness



#### Understanding



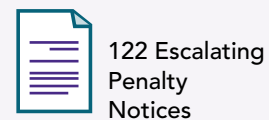
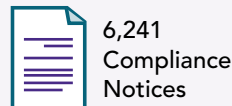
## Type of scheme used



## Our interventions



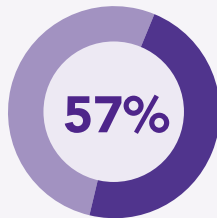
In 2015-2016 we issued:



## Forthcoming trends and challenges



Sizes of those still to stage:



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



34% of the remaining micro employers only have one worker

## Our main focus in 2015-2016

### Automatic enrolment: background

AE began in October 2012, and is being rolled out in a staged approach. Businesses with 250 employees or more (large employers) had their staging date from 1 October 2012 to 1 February 2014, those with 50 to 249 employees (medium employers) staged from 1 April 2014 to 1 April 2015, and small (5-49) and micro (1-4) employers began to be subject to their duties from June 2015. New businesses that started up after 1 April 2012 have been given a staging date from 1 May 2017.

Table 1 shows the volume of employers by size (in terms of number of employees) who staged in each quarter between April 2015 and the end of March 2016.

**Table 1: Employer breakdown by size and staging date**

Quarter	Number of employers staging				
	Micro	Small	Medium	Large	Total
Q1	6,116	8,646	1,964	20	16,746
Q2	538	6,705	4,448	69	11,760
Q3	737	15,134	3,249	72	19,192
Q4	48,549	39,690	653	159	89,051
Total	55,940	70,175	10,314	320	136,749



136,749  
employers  
staged between  
April 2015 and  
March 2016.

## How AE works

Employers must enrol all eligible jobholders into a qualifying pension scheme and make contributions. This applies to workers aged at least 22 but under state pension age (SPA), usually working in the UK and earning more than £10,000 per year (see Table 2), unless they are already a member of a pension scheme that meets certain criteria set out in law.

A worker who is automatically enrolled into a scheme has the option to opt out of it within one month if they choose.

Minimum contributions are being phased in so that from 6 April 2019 they will increase to 8% of qualifying earnings<sup>1</sup>, of which a minimum of 3% must come from the employer.

**Table 2: Categories of worker**

Earnings	Age		
	16-21	22-SPA	SPA-74
Lower earnings threshold (£5,824) or below	Entitled worker		
More than lower earnings threshold up to and including the earnings trigger for automatic enrolment (£10,000)	Non-eligible jobholder		
Over earnings trigger for automatic enrolment	Non-eligible jobholder	Eligible jobholder	Non-eligible jobholder

Employers must provide information to us to show they are meeting their AE duties. This means completing a declaration of compliance using our online service within five months from their staging date. Employers need to keep paying contributions into the pension scheme they have set up, keep up-to-date records for their staff, monitor any changes in age or earnings, and manage requests to opt in or leave the scheme every time they run their payroll.

Every three years, staff who were automatically enrolled but opted out of or ceased active membership of a pension scheme more than 12 months before an employer's re-enrolment date must be automatically re-enrolled into the scheme. Again, they have the choice to opt out. This prompts them to revisit their initial decision to opt out.

<sup>1</sup>  
[www.tpr.gov.uk/earnings-thresholds](http://www.tpr.gov.uk/earnings-thresholds)



## Nationwide advertising

To reach small and micro employers we launched a nationwide advertising campaign in October 2015, in partnership with the DWP. Previous waves of advertising targeted a varied audience of employer sizes, reflecting the profile of employers still to meet their duties. However, as the majority of large and medium-sized employers had gone through AE, the focus of this campaign turned to small and micro employers. This required a new approach due to some of the specific challenges raised by a large, wide and diverse range of employers including hairdressers, garage owners or people that employ a personal care assistant or help in their home.

The campaign spanned a range of channels, including television (where we targeted employers for the first time), radio, press adverts, digital channels and social media.



**Don't ignore the Workplace Pension**

With a workplace pension, you'll get money towards your future. Because when you pay in, your boss pays in too. Your employer will have to offer you one by law. For more information go to [www.workplacepensions.gov.uk](http://www.workplacepensions.gov.uk)

Qualifying criteria apply.

The Pensions Regulator

Department for Work & Pensions

## Mailing all employers

In the past 12 months, we completed our mailing to all employers. We have sent letters to 1.4 million employers to help them become aware of their staging dates, to let them know that we would be writing to them again 12 months before their staging dates, and to signpost to where they could find more information. This mail-out raised awareness among employers and was also fundamental in helping us refine our data. We also specifically asked employers to nominate a contact to receive our communications, which resulted in 411,000 nominations.

We write to employers 12 months before their staging date. This initial 'getting started' letter encourages them to use the Duties Checker and includes our 'Essential guide to automatic enrolment', providing a top-level introductory overview of what's involved. The language and terminology in our communications has also been simplified to clearly explain what an employer needs to do, by when, and to signpost relevant guidance with the online step-by-step guide.

## Helping small employers: Duties Checker and simplified website

We re-launched our website to include our 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. There are now clear options for small and micro employers who don't have complex workforces and want instructions on how to comply without having to wade through lots of details.

The Duties Checker also gives those who employ domestic workers or personal care assistants in the home the opportunity to access guidance tailored to their needs. We've targeted specific industry sectors that we had identified as being at the greatest risk of non-compliance, such as the construction, hospitality and retail sectors, and have re-worked and added content on our website on specific issues affecting them.

Over the course of the year our website received over 1.2 million unique visitors to the AE page, with nearly 900,000 employers using our staging date tool.



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185,107 employers have used the new Duties Checker tool since it was introduced in October 2015. These employers can be divided into the following main segments:

- ▶ Employer that has to provide a pension – 49.4%
- ▶ Not an employer: we deactivate our record – 35.9%
- ▶ Employer that does not have to provide a pension, but has duties – 12.3%

The remaining 3% of employers are those that employ home help and/or personal care assistants.

## Guidance on costs and charges

To help employers understand how much AE might cost them, we published guidance on our website. This was in response to employers telling us that they were worried about the cost of AE and confused about what they should pay for. This guidance included the results of our research, which showed that micro employers with fewer than five members of staff spent up to 10 hours on tasks required over a 12 month period. Their set-up costs were usually relatively low or non-existent and they didn't always need to appoint advisers to support them.

## Working with employer and trade bodies

We have established a successful programme of communications partnerships with professional and employer bodies, whom employers and their advisers often turn to as trusted sources of information on AE. We've now extended the reach of our messaging to more than 100 trade associations and business networks.

We aim to provide targeted, regular and relevant messaging to be communicated to employers and their intermediaries through our communications partners' free of charge channels, which means there is limited call on their in-house technical and communications resources.

We continue to work with our closest stakeholders and partners to identify 'communication gaps', in order to update our messaging and new product development.



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## **Engaging with the pensions industry and service providers**

Our industry liaison team continues to engage with all industry sectors, including pension providers, payroll software, financial advisers, employee benefit consultants, accountants, payroll bureaux and third party providers. Their aim is to understand the services provided, and raise awareness and understanding of their role in supporting employers to comply with their duties. We spoke at 397 speaking engagements.

## **Assisting advisers**

Our webpages for advisers were refreshed to reflect the changes that had been made to our web content for employers, and to provide advisers with detailed information and guidance to support their clients. We undertook further activity to engage with this audience, including running live events, webinars and online Q&A sessions. We continue to send out a monthly email newsletter tailored to their needs.

## **Master trust assurance**

Our latest figures show that the majority of employers put their staff into defined contribution (DC) schemes, particularly group personal pensions (GPPs) and master trusts. To help ensure people are put into schemes that are well governed and administered, we launched a list of master trusts that have obtained independent assurance onto our 'Choosing a pension scheme' page last year. This list continues to be updated and now is also extended to GPPs. The master trust assurance framework has been developed by the Institute of Chartered Accountants in England and Wales (ICAEW) in partnership with us.

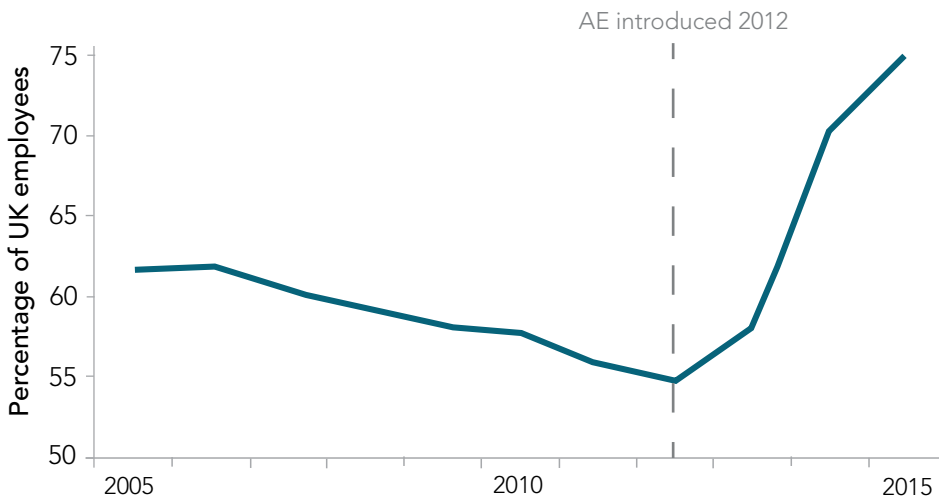
## **Re-enrolment**

Automatic re-enrolment occurs every three years and we have started communicating with large employers on re-enrolment based on their third year AE anniversary date. This includes developing a journey to raise awareness and direct them to appropriate information online in order to complete their duties and re-declare their compliance with us.

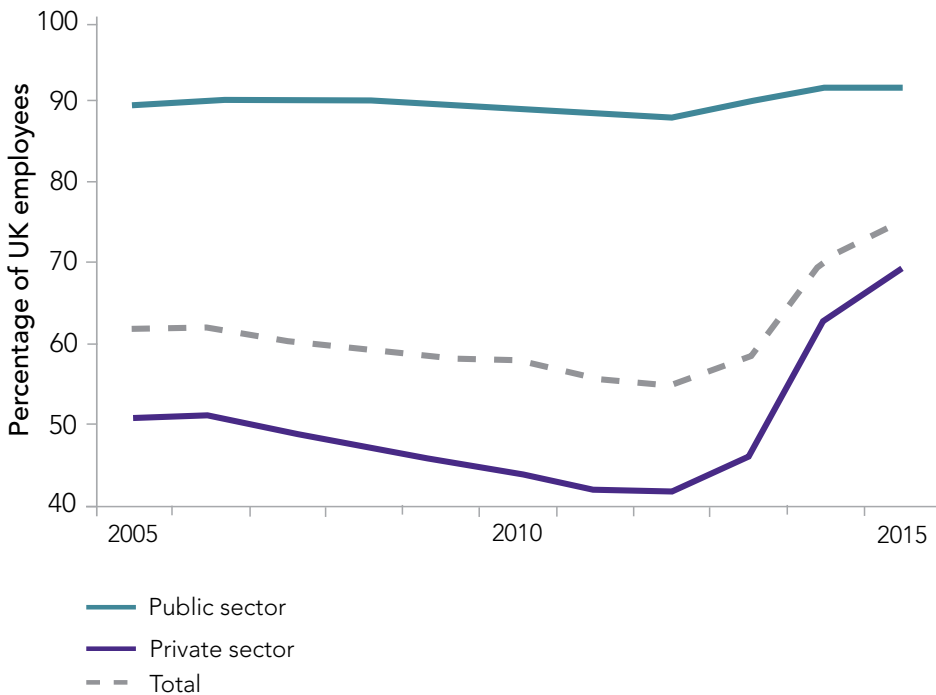
## Trends affecting UK pensions

Between the introduction of the reforms in 2012 and April 2015, the overall proportion of eligible employees saving into a workplace pension increased by 20 percentage points from 55% to 75% (as seen in Figure 1). Much of this has come from increases in private sector saving, which has increased by 28 percentage points (from 42% in 2012 to 70% in 2015), whereas public sector participation increased by three percentage points (from 88% in 2012 to 91% in 2015). This can be seen in Figure 2.

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



**Figure 2: Eligible workers' participation in workplace pensions by sector**



## Contribution levels

Contributions continue to be in line with legislative requirements. Overall, the average employer contribution for staged employers was 3%. This was slightly higher for stakeholder (4%) and GPPs/group self invested personal pension schemes (GSIPP) (5%) and slightly lower for NEST and other master trusts (each 2%).

The minimum contribution rate for DC pension schemes, personal pension schemes and some hybrid schemes is being phased in.

**Table 3: Phasing of contributions**

Phase	Duration	Employer minimum contribution	Total minimum contribution
First transitional period	To 5 April 2018	1%	2%
Second transitional period	6 April 2018 to 5 April 2019	2%	5%
From 6 April 2019 onwards		3%	8%

## Our 'test and learn' approach – Pathfinder

To help us decide on our approach in engaging with small and micro employers and creating minimal burden for them, we undertook a 'test and learn' programme (Pathfinder) in a live environment. This chapter highlights our work in this area.

The pathfinder for AE focused on a group of small and micro employers who had a staging date of June 2015. It was intended to build up further knowledge about employer behaviours to help inform future decisions and communications approaches, and was underpinned by the following key principles:

- ▶ **Evidence-based:** The future development of direct communications to employers and messaging aimed at employers was based on robust, statistically sound evidence identified from the evolution of the different trials, by testing real and actual responses from employers.
- ▶ **Timely:** Ensuring that any insights gained from pathfinder trials could then be rapidly incorporated into communications for employers still to stage, in order to maximise their impact and make sure that as many employers benefit from pathfinder insights as possible.
- ▶ **Clear and consistent messaging to motivate actions:** Through clear and consistent use of single messages, regardless of channel, we ensured that messages were capable of connecting with and motivating employers.

The key findings are being implemented into further trials and communications:

- ▶ Pathfinder validated our approach that proactively engaging with our customers is important to driving on-time compliance rates. It showed that sending regular direct communications increased the likelihood of employers meeting their duties.
- ▶ Simplified communications and language, reduced numbers of steps on the web journey, and a segmented, directive approach are effective in driving higher on-time compliance rates.
- ▶ Nomination of a contact indicates an employer is more likely to comply on time.
- ▶ Encouraging employers to complete a partial declaration of compliance before their declaration deadline also drives greater on-time compliance, without a last minute rush.



The pathfinder for AE focused on a group of small and micro employers who had a staging date of June 2015

## Awareness, understanding and engagement

In this chapter, we examine the levels of awareness, understanding and engagement among employers and intermediaries. We monitor employers' and intermediaries' awareness and understanding of the AE duties via two tracking surveys<sup>2</sup>, which we carry out every six months.

### Employer awareness and understanding

Our most recent employer survey<sup>2</sup> showed that there continue to be high levels of awareness among small (95%) and micro (79%) employers due to stage in 2016 and 2017. This increases the closer they are to staging, as seen in Figure 3.

**Figure 3: Small and micro employer awareness**

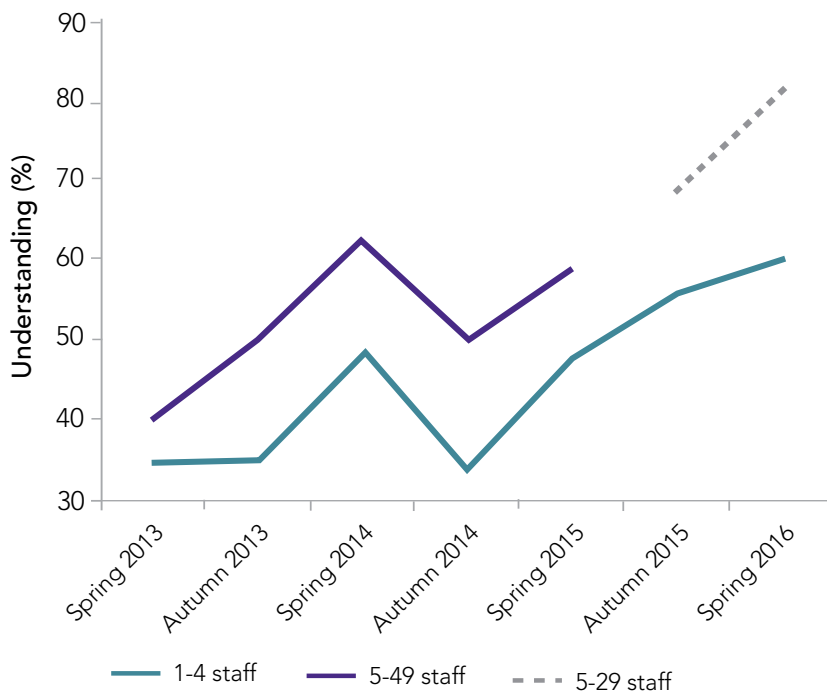


Overall levels of understanding increased significantly in the year, reaching 81% among small employers, while among micro employers they increased to 60%.

<sup>2</sup> Employers' research and Intermediaries' research at [www.tpr.gov.uk/research](http://www.tpr.gov.uk/research)

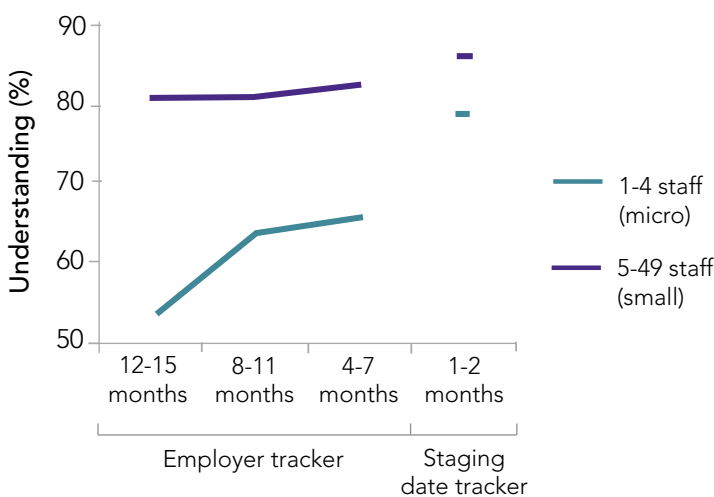


**Figure 4: Small and micro employer understanding**



Evidence from both our Employer Survey Tracker and our Staging Date Tracker showed the 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. This is shown in Figure 5.

**Figure 5: Levels of understanding nearer to staging date**



We also assess employer readiness via the monthly Staging Date Tracker for employers who are between one and two months from their staging date. Awareness and understanding of the duties were high among both small and micro employers in this group. This can be seen in Table 4.

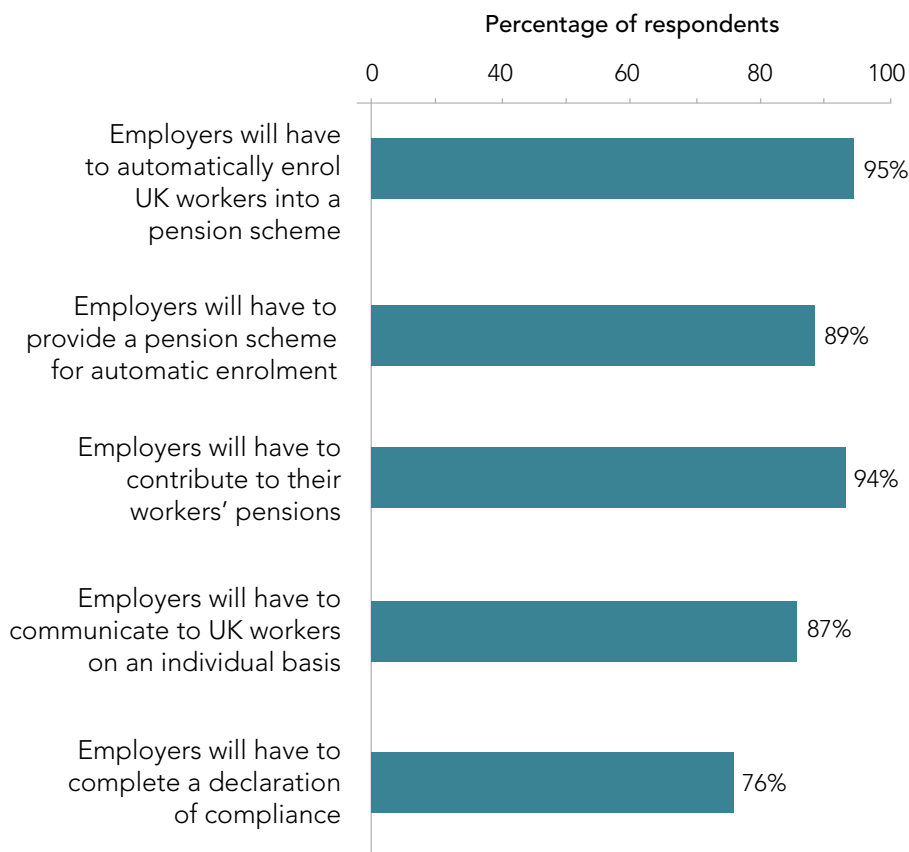
**Table 4: Staging date tracker levels of awareness and understanding**

Employer size	Awareness	Understanding
Small	96%	88%
Micro	90%	79%

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.

To have ‘awareness’, employers had to have knowledge of the first three requirements. ‘Understanding’ of the detailed requirements of AE was determined by assessing whether employers were aware of the three awareness requirements plus two additional requirements. Figure 6 shows the volumes of small and micro employers who correctly identified these requirements.

**Figure 6: Small and micro employers who correctly identified the five requirements**



## Intermediary awareness and understanding

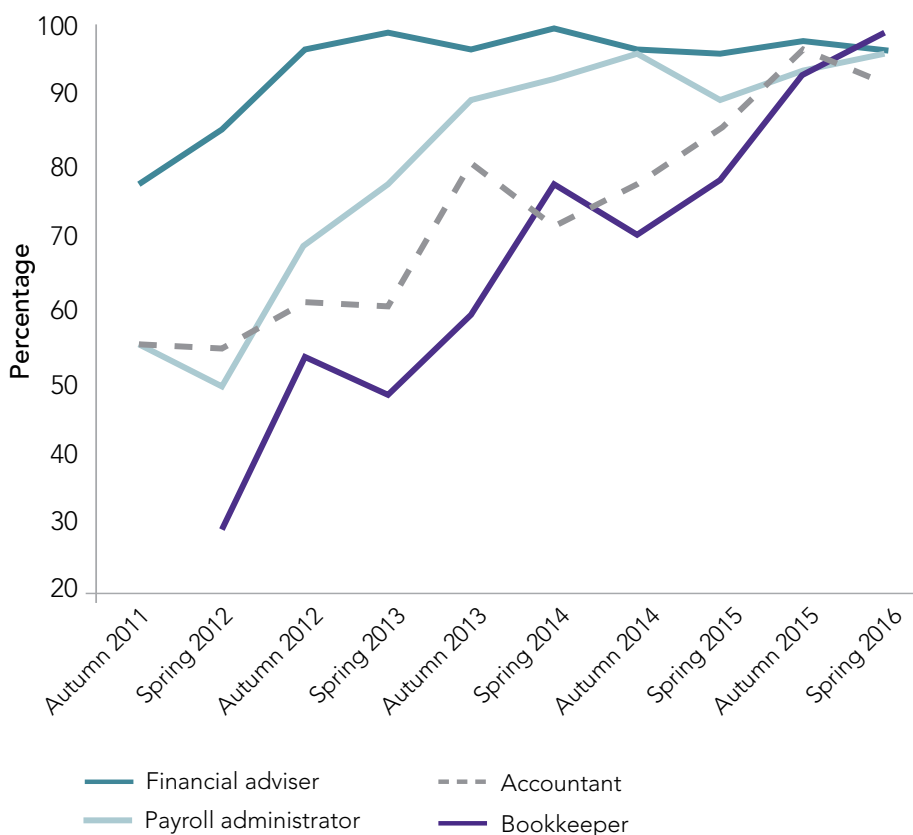
We monitor awareness and understanding of AE every six months among the key intermediaries who support employers – financial advisers, payroll administrators, accountants and bookkeepers.

**Table 5: Awareness and understanding among advisers**

Adviser type	Awareness	Understanding
Financial adviser	100%	96%
Payroll administrator	98%	95%
Accountant	97%	91%
Bookkeeper	99%	98%

Overall levels of understanding for each of the four intermediary types reached over 90% for the first time in our autumn 2015 survey and were maintained through spring 2016.

**Figure 7: Understanding among advisers**



In terms of intermediaries' understanding of the more detailed aspects of AE, there have been some noticeable improvements in the last year. Importantly, there is now a smaller gap in levels of understanding, with overall knowledge now high across the four types of intermediaries.

The majority (87% on average) were aware of the eligibility criteria. Awareness of the earnings criteria was lower at 52% (ranging from 46% of accountants to 59% of payroll administrators), with this figure reduced by a lower awareness that statutory pay (such as maternity/paternity pay, statutory sick pay) needs to be included.

We have seen a substantial increase in overall awareness among intermediaries that employers need to submit their declaration of compliance to us. This increase has been driven primarily by the levels of awareness of bookkeepers (82%) and accountants (84%), whose levels of knowledge have increased close to those of financial advisers (87%) and payroll administrators (92%).

**Table 6: AE services offered by advisers**

Adviser type	Currently offers AE services	Plans to offer AE services in the future	Total potential service
Financial adviser	93%	3%	96%
Payroll administrator	94%	2%	96%
Accountant	92%	6%	98%
Bookkeeper	91%	5%	96%

## Employer engagement

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

There has been a substantial rise in the proportion of intermediaries planning to offer AE services to their clients. As shown in Table 6, over 90% of all intermediary types are already offering to help their clients comply. When taken in conjunction with those who say that they plan to offer such services in the future, it is apparent that a majority of all intermediary types will be involved in providing practical assistance to their clients.

## The effectiveness of our communications activities

Analysis suggests that our direct communications and the use of nationwide advertising are continuing to drive high levels of awareness and understanding. The latest research into employers' and intermediaries' awareness of AE showed that 79% of employers remembered seeing or hearing at least one of our campaign adverts, while intermediaries who had seen the adverts found them relevant and memorable.

Our key findings from employer and intermediary surveys concerning the impact of our advertising campaign found that:

- ▶ around a quarter of employers (24%) spontaneously recalled the key message that 'all employers need to comply'
- ▶ campaign recall levels amongst intermediaries were between 90% and 94%
- ▶ 91% of bookkeepers recalled the advert, a significant increase from 82% the year before

Both surveys found an increased awareness of TPR, with almost all employers having some level of familiarity. This has been an important goal for us. If employers know who we are they can take advantage of the help and support we offer, and be more aware of the consequences of non-compliance. There has also been a continual increase since 2012 in the proportion of intermediaries who consider themselves well informed about us.

## Main implications and outcomes in this chapter

- ▶ Awareness and understanding of AE among employers continues to climb steadily, which is encouraging.
- ▶ Levels of understanding were driven down because fewer micro employers understood that they needed to complete a declaration of compliance. We have recently made some improvements to the declaration of compliance portal, including making it easier to use and simplifying the language. We will continue to work to raise awareness of the declaration process and make it easier for employers to understand and comply with their duties.
- ▶ If employers know who we are they can take advantage of the help and support we offer, and be more aware of the consequences of non-compliance.
- ▶ The survey confirmed that knowledge levels improved significantly for intermediaries once they started acting on behalf of clients, and that the vast majority of intermediaries have already begun to help their clients to comply. Those who were already supporting clients with AE had overall understanding levels of 96% versus those who planned to support clients (79%).

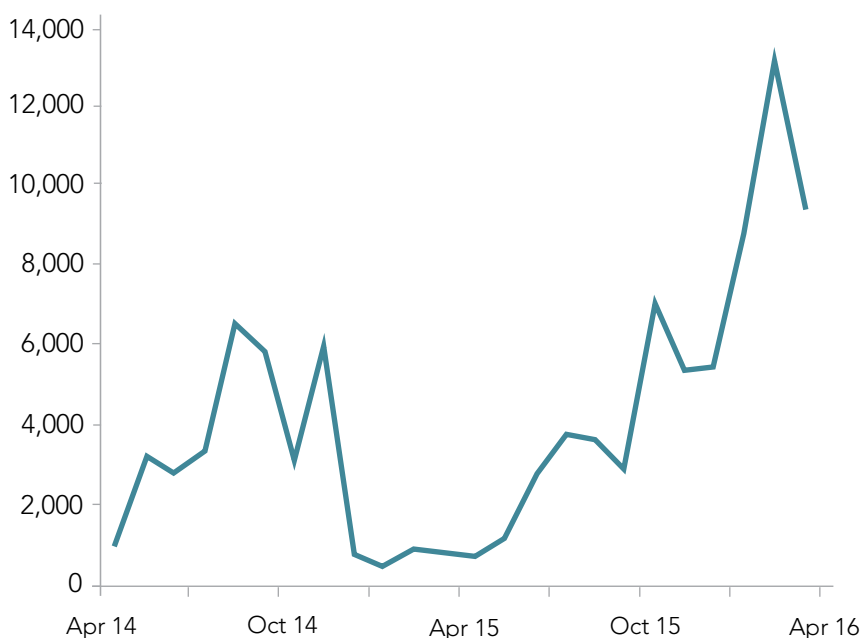
## Completed declarations of compliance

Employers confirm to us that they have complied with their AE duties by completing a declaration of compliance. This chapter reports on the declaration of compliance process to 31 March 2016. It includes details on the number of employers completing their declaration by month, those who brought forward their staging date, and those who chose to use postponement.

### Findings

Employers have up to five months from their staging date to complete their declaration. The number of declarations in the past year (64,283) represents 58% of total declarations to date.

**Figure 8: Declarations per reporting month, 2014-2016**



The number of employers that completed their declarations of compliance rose from the previous year from December onwards, due to the large volume of small employers who became subject to their duties. More than 95% of the first group of small and micro employers who were required to complete their duties have complied with the law.

Based on the total number of workers that employers reported having at their declaration, the cumulative split in the size of employers (who have completed their declaration) is large (9%), medium (34%), small (41%) and micro (16%).

To date, 13,484 of those who completed the declaration brought forward their AE duties. An employer might bring forward their staging date:

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

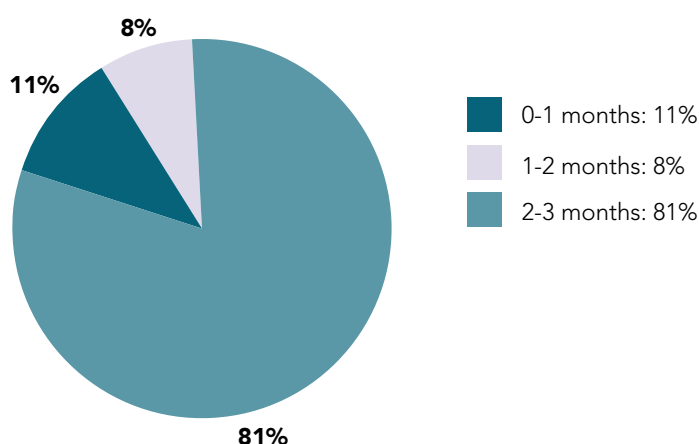
## Postponement

Employers can choose to defer the process of assessing their workforce for AE purposes for a period of up to three months, for example to help them align their AE duties to other business practices. This doesn't mean postponing their staging date, which is set in law, or the declaration of compliance deadline, which is five months from their staging date.

On average, over the last year just under 30% of employers chose to use postponement, compared to over half of employers in the previous year (of which the majority were medium sized employers).

42,152 have chosen to use postponement to date. Most of those who have used postponement over the past year have chosen to postpone by 2-3 months (81%).

**Figure 9: Length of postponement period used**





## DB transitional arrangements

Employers with eligible jobholders who will be enrolled into a defined benefit (DB) scheme or the DB section of a hybrid scheme can choose to delay AE until 30 September 2017.

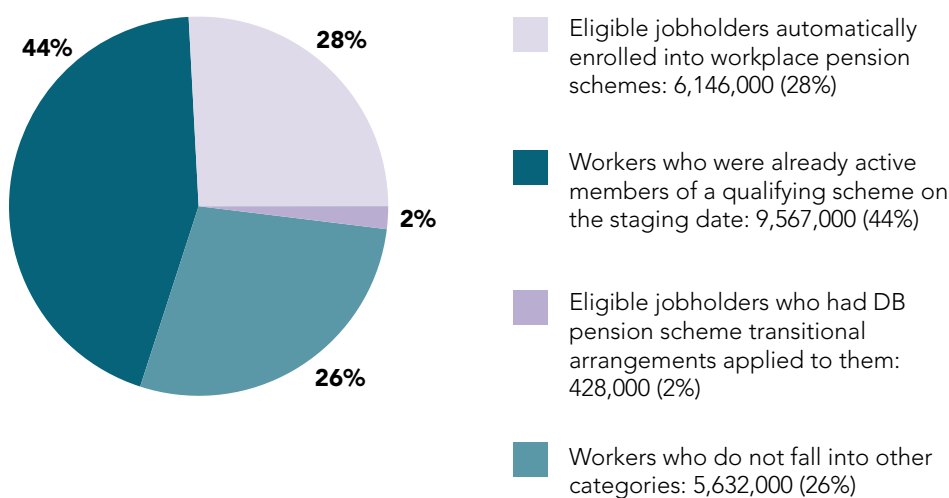
To date, 1,376 employers reported that they had these arrangements in place when they completed their declaration, representing an increase this year of 154. This increase can be attributed to a number of smaller public sector employers having access to larger public sector schemes, for example individual schools having access to the Local Government DB scheme, or doctors and dentists using NHS schemes.

The relative low volume in the period aligns with our assumption that fewer smaller employers will be using DB/hybrid transitional arrangements as we move through the staging forecast. This reflects the fact that smaller employers are more likely to find that DC schemes are better suited to meet their AE duties. We have provided the names of DC schemes on our website at [www.tpr.gov.uk/master](http://www.tpr.gov.uk/master) that are open to employers of all sizes.

## Workforce

Up to the end of March 2016, employers who became subject to the duties reported that their total workforce was nearly 22 million. This works out at 66% of the total UK workforce. Some of the 22 million will have worked for employers that have subsequently ceased to trade, and a worker may be counted in these statistics for more than one employer.

**Figure 10: Workforce details provided by organisations that complete the declaration of compliance**



Increasingly, we are seeing a higher proportion of workers being automatically enrolled when compared with those already in a pension scheme or not eligible to be automatically enrolled. This is a continuing trend from last year as expected because small employers generally don't have pension provision in place and therefore have no active members.

The number of non-eligible jobholders (26%) includes, among others, those under 22, over state pension age, not ordinarily working in the UK, and/or earning less than £10,000 per year.

Over the period, non-eligible jobholders remains largely consistent, although there is a slight uplift over the last two months, as small and micro employer volumes increase.

The table below gives a breakdown of employees who were automatically enrolled, already had a pension, were in a DB scheme, or were non-eligible jobholders, by size of employer.

**Table 7: Workforce splits by size – 2015-2016**

	Micro	Small	Medium	Large	Total
Eligible jobholders automatically enrolled into workplace pension schemes	16,100	525,600	381,100	22,800	945,500
Workers who were already active members of a qualifying scheme on the staging date	2,300	144,300	119,100	13,700	279,400
Eligible workers who had DB pension scheme transitional arrangements applied to them	0	600	500	300	1,400
Non-eligible jobholders	17,700	268,200	191,800	32,900	510,500

NB: Size bands for employers: Large 250+, medium 50-249, small 5-49, micro 1-4

Since the start of AE, a total of 6,146,000 eligible jobholders had been put into a pension scheme. 3,855,000 (63%) were employed by large organisations, 1,683,000 (27%) were employed by medium organisations, and 608,000 (10%) were employed by small and micro employers.

**Table 8: Cumulative workforce splits by size**

	Micro	Small	Medium	Large	Total
Eligible jobholders automatically enrolled into workplace pension schemes	17,000	591,000	1,683,000	3,855,000	6,146,000
Workers who were already active members of a qualifying scheme on the staging date	3,000	188,000	1,038,000	8,338,000	9,567,000
Eligible workers who had DB pension scheme transitional arrangements applied to them	0	1,000	7,000	420,000	428,000
Non-eligible jobholders	18,000	300,000	931,000	4,383,000	5,632,000
<b>Total</b>	<b>38,000</b>	<b>1,081,000</b>	<b>3,658,000</b>	<b>16,996,000</b>	<b>21,774,000</b>

NB: totals may not sum due to rounding

**Table 9: Workforce and number of staff enrolled**

Period	Workforce size	Number automatically enrolled
2015-2016	1.7 million	0.9 million (54% of workforce)
Cumulative	21.8 million	6.1 million (28% of workforce)

## Main implications and outcomes for this chapter

- ▶ The number of employers who completed their declarations of compliance rose due to the large volume of small employers who became subject to their duties.
- ▶ The increased number of employers staging means that six million more workers now have a workplace pension.
- ▶ Small and micro employers are less likely to use postponement compared to large employers.

## Pension schemes used and levels of participation

Here we examine the different types of pension schemes used by employers to meet their AE duties. The figures below show the types of pension scheme that are being used by employers with fewer than 30 members of staff, as well as those employers with 30 or more staff.

Overall, the number of employers using DC schemes for AE has risen from 86% to 93% over the past year, as has the proportion of employees enrolled into DC schemes (91% compared with 89% last year). 59% of employers chose a DC trust-based scheme, and 34% chose a DC contract-based scheme. The remainder chose a DB or hybrid scheme. Of those who chose to put their staff into a DC trust scheme, 98% chose a master trust, up from 94% the previous year.

**Table 10: Schemes used for AE**

Scheme type	Scheme types reported in declarations of compliance		Number of pension schemes		Number of eligible jobholders automatically enrolled (rounded)	
	Number	Percentage	Number	Percentage	Number	Percentage
DB	5,784	6%	272	18%	282,000	5%
Hybrid	1,565	2%	338	22%	292,500	5%
DC (trust)	57,764	59%	499	33%	3,373,900	55%
DC (contract)	33,129	34%	227	15%	2,192,400	36%
Unknown	175	0%	171	11%	5,100	0%
<b>Total</b>	<b>98,417</b>	<b>100%</b>	<b>1,507</b>	<b>100%</b>	<b>6,146,000</b>	<b>100%</b>

Note: figures may not sum due to rounding

## Schemes used

We continue to see a downward trend for DB and hybrid schemes. These schemes have gone from being used in 24% of declarations in 2014 to just 8% to the end of 2015-2016 – in line with our assumption that smaller employers are less likely to enrol their staff into a DB scheme. DC schemes continue to be the main type of scheme used for AE.

As with last year, we continue to see that master trusts account for an increasing proportion of the DC trust-based schemes used by employers. Master trusts are occupational schemes that are not industry-specific or affiliated schemes.

Table 11 shows that a significant proportion of schemes used for AE are master trusts.

**Table 11: Scheme types used**

Scheme type	Declarations of compliance	Eligible jobholders	Number of schemes
Master trusts (%)	56,803 (98%)	3,011,600 (89%)	48 (10%)
Non-master trusts (%)	961 (2%)	362,300 (11%)	451 (90%)
<b>Total</b>	<b>57,764</b>	<b>3,373,900</b>	<b>499</b>

Table 12 shows the split of master trusts and non-master trusts between employers with fewer than 30 staff and more than 30 staff. Of the 3 million workers enrolled into a master trust, around 97% are in a master trust that has achieved assurance status.

**Table 12: Declarations of compliance split by employer size**

Scheme type	Declarations of compliance	Employers with fewer than 30 staff	Employers with more than 30 staff
Master trusts (%)	56,803 (98%)	23,477 (99%)	33,326 (97%)
Non-master trusts (%)	961 (2%)	116 (0.5%)	845 (2.5%)

Figure 11 shows that over 97% of employers with fewer than 30 staff are using a form of DC scheme.

**Figure 11: Type of pension scheme used for AE by employers with fewer than 30 staff**

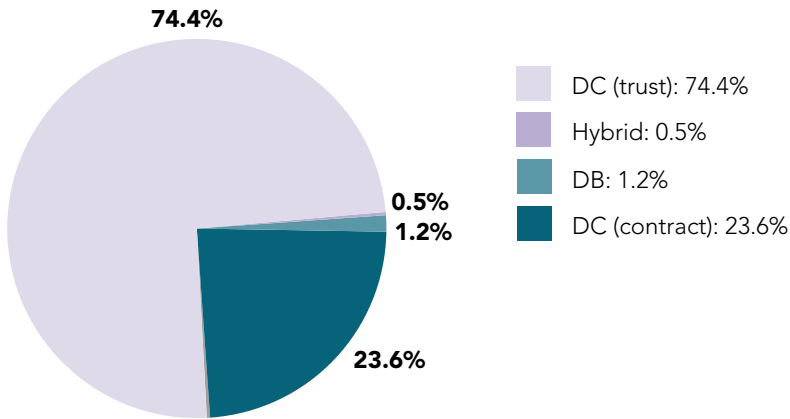
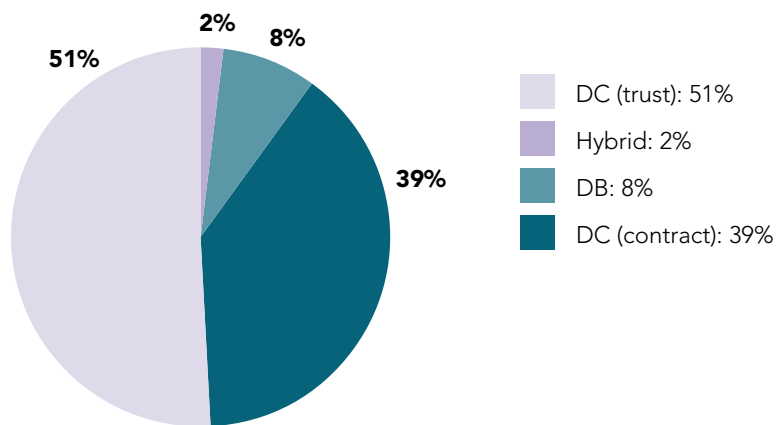


Figure 12 shows that 90% of employers with 30 or more staff are using a DC scheme.

**Figure 12: Type of pension scheme used for AE by employers with 30 or more staff**



## Tax relief arrangements

There are two tax relief arrangements that may apply to member contributions – 'net pay arrangement' and 'relief at source'. These arrangements may affect higher and lower paid scheme members in different ways. Net pay arrangements are less advantageous for lower paid scheme members, while relief at source is suitable for all members regardless of their level of pay. The tax relief arrangement may affect how much it costs a member to contribute.

We expect trustees to provide members with clear, accurate and relevant information about how they're affected and whether they need to take any action. We've published guidance on this on our website at [www.tpr.gov.uk/adviser-scheme-summary](http://www.tpr.gov.uk/adviser-scheme-summary).

## Main implications and outcomes in this chapter

- ▶ There is a downward trend for DB and hybrid schemes being used.
- ▶ 59% of employers chose a DC trust-based scheme and 34% of employers a DC contract-based scheme.
- ▶ There is a continued upward trend in the use of DC master trusts. Of those who chose to put their staff into a DC trust scheme, 98% chose a master trust, up from 94% the previous year.

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



There is a continued upward trend in the use of DC master trusts.

## Compliance and enforcement

In this chapter, we look at the compliance and enforcement activities from 1 April 2015 to 31 March 2016. We show how our approach to education and enablement is supporting compliance among employers.

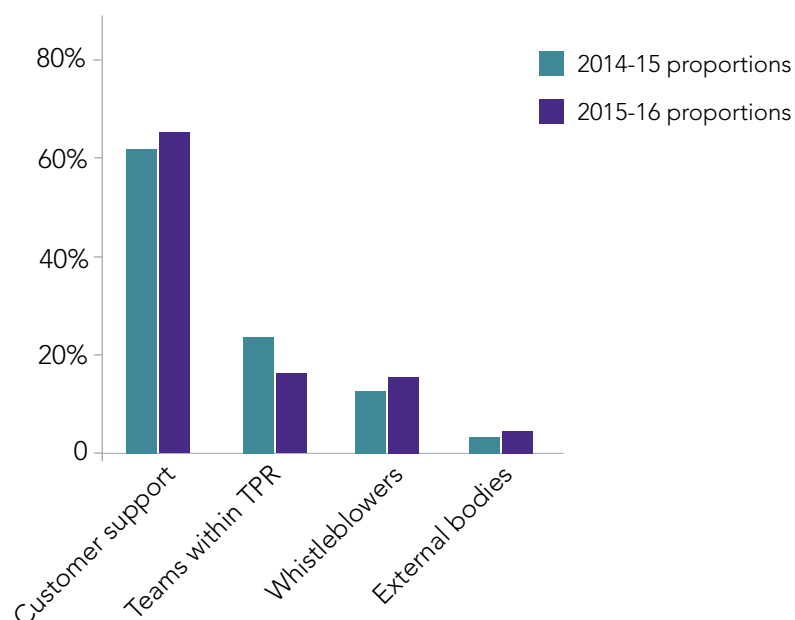
### Findings

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

### Intelligence

We receive intelligence on possible compliance breaches from a variety of sources, and monitor compliance risks and behaviours among different employer groups. The understanding we gain from this is then used to direct our proactive drives, which we describe in our quarterly compliance and enforcement bulletins. We also use this intelligence to inform the targeting of our communications activity. These bulletins include case studies to provide employers with the lessons learned from our enforcement action.

**Figure 13: Source of referrals**



The number of cases does not correspond directly to the number of compliance notices we have issued. Figure 13 does not include reports directly from pension providers or trustees of late or non-payment of contributions.



Our customer support service remains the main intelligence channel for prompting referrals, which may lead to compliance and enforcement activity. There were 3,787 referrals this year, compared to 2,801 last year.

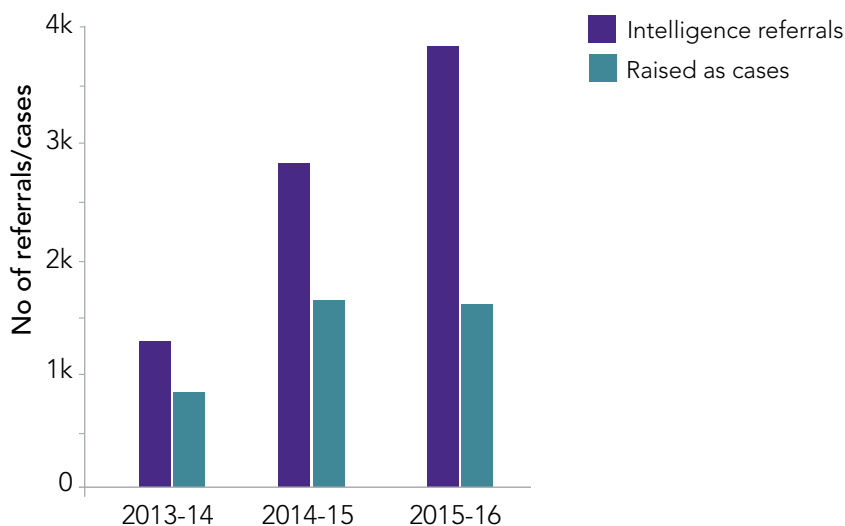
The primary concerns expressed by whistleblowers are late or missing contributions (53%).

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

## Cases

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

**Figure 14: Referrals and cases**

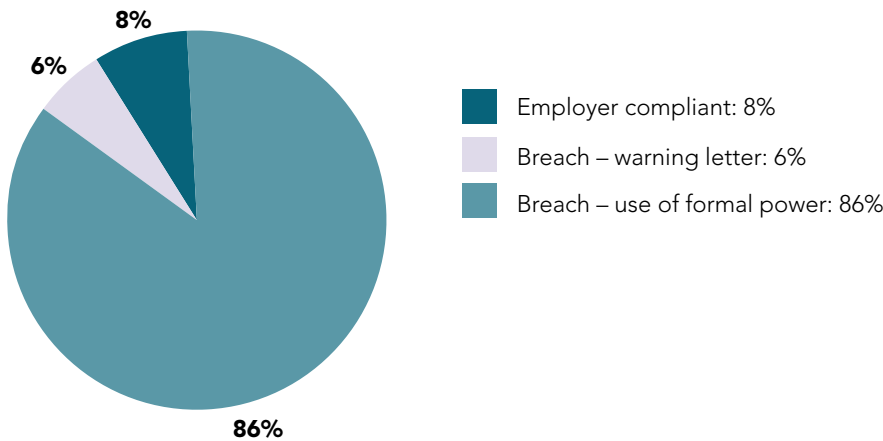


We have seen the number of cases rise in line with the current staging forecast. As a regulator, we continue to take a proportionate approach to our case interventions to ensure they have the maximum impact in maximising compliance and protecting members' benefits.

## Closed cases

We deal with cases in an effective and efficient manner, and have closed 7,456 cases to date with 4,692 cases closed in 2015-2016. This means that the number of cases closed this year represents 63% of that total. In 8% of the closed cases in 2015-2016, the employer was found to be compliant, in 6% we issued a warning letter in relation to a breach, and in 86% of the cases it was necessary for us to use our formal powers.

**Figure 15: Outcome of closed cases**



## Use of formal powers

Between April 2015 and March 2016 we used our formal powers on 8,812 occasions – 6,643 more times than the previous year. This includes Compliance and Fixed Penalty Notices. As anticipated, the number of Escalating Penalty Notices we have issued has increased, in line with the rise in small employers staging and the behaviours we expected from this group. Most of these small employers comply on time and we continue to see high compliance rates. However, others need a nudge and are prompted to meet their duties when they receive one of our notices. Employers who receive one of our statutory notices have the option to ask for review of the notice.

**Table 13: Use of formal powers 2015-2016**

Intervention	Number issued
Compliance Notices	6,241
Unpaid Contribution Notices	400
Statutory Demands for Information	34
Statutory Inspection Notices	13
Fixed Penalty Notices	2,002
Escalating Penalty Notices	122

Up to the end of March 2016 we received 41 Tribunal appeals and decided to defend 23 cases. Of the eight appeals decided by the Tribunal, the notice was confirmed in every case.

### Compliance and enforcement: case study

Section 89 of the Pensions Act 2004 gives us the power to publish information on cases where we have exercised or considered exercising our powers. This may include information that we have obtained in the course of the exercise of our statutory functions.

We publish reports under section 89 to increase transparency and understanding of our decisions and actions, and to deter unlawful or improper practices or behaviours.

### Section 89 report

We issued a section 89 report detailing a case where we had to use a number of our powers, including issuing Escalating Penalty Notices, when the employer failed to comply with their duties.

As a result of our intervention, employees of Swindon Town Football Club (STFC) who were eligible for AE were in the same position they would have been had STFC automatically enrolled them on their staging date. The penalty fine of £22,900, which included the £400 Fixed Penalty Notice, was settled in full on 16 February 2016.

This case illustrated the need to engage early with us where we identify non-compliance. STFC's initial lack of action led to further delays in complying with their duties, and as a result our intervention escalated from a focus on remedial action to one of sanction and redress. In respect of STFC's AE duties, we issued a Compliance Notice, a Fixed Penalty Notice and an Escalating Penalty Notice. In respect of the failure to pay the pension contributions due, we issued an Unpaid Contributions Notice and an Escalating Penalty Notice, and conducted a section 74 inspection. Had STFC responded to our initial contact and taken action quickly, £22,900 of penalty fines could have been avoided.

## Main implications and outcomes in this chapter

As we deal with smaller employers, it is expected there will be more who, despite the message to prepare early, leave it too late or don't act at all.

Engaging with us early in the process and working to put things right can help to avoid Penalty Notices and fines. If an employer has chosen to ignore their duties, we will use our powers where appropriate to ensure compliance.

We expect employers to follow our guidance and prepare in good time.



Engaging with us early in the process and working to put things right can help to avoid Penalty Notices and fines.

## Re-enrolment

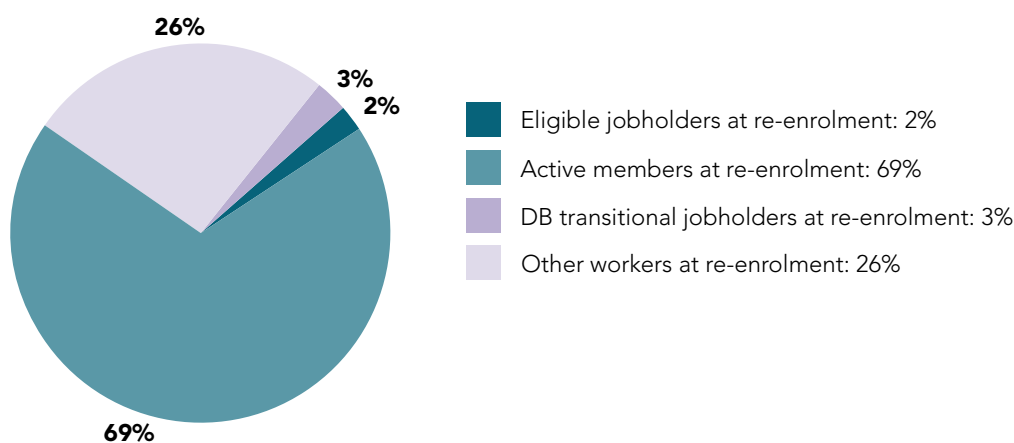
In this chapter, we look at automatic re-enrolment. Re-enrolment occurs every three years and is similar to the duties that an employer carries out on their staging date, or deferral date if they used postponement. We write to employers six months before the third year anniversary of their staging date to remind them about the duty to re-enrol certain staff. We then write to them at key points before their re-declaration deadline.

Employers must re-enrol certain staff into a pension scheme that can be used for AE, if they were previously enrolled but opted out or ceased active membership.

We are working with the larger employers who are due to re-enrol and, as of April 2016, now include information about employers who have complied with their re-enrolment duties in our monthly declaration of compliance reports.

Of the 612 employers who re-declared compliance in 2015-2016, over half (375) did not have anyone to re-enrol but did have a workplace pension scheme with active members in it.

**Figure 16: Cumulative workforce split at re-declaration**



### Main implications and outcomes in this chapter

We will continue to communicate with large employers about re-enrolment and adapt this approach to reflect the different sizes of employers who are due to re-declare in the future.

Our approach remains to raise awareness and direct employers to the appropriate information online in order to complete their duties and re-declare their compliance with us on time.

## Forthcoming trends and challenges

Here, we look ahead to the upcoming trends and challenges that we may face. In the coming year we will continue to help small and micro employers meet their duties by focusing on the position of appropriate educational materials and enablement tools for this audience. We will ensure they are relevant and targeted to the changing profile of staging employers by:

- ▶ ensuring we can meet the demands and needs of an increased volume of smaller employers
- ▶ making better use of technology to collect data and improve its quality
- ▶ simplifying and automating our processes as much as possible

We will continue to build our compliance and enforcement capability to accommodate high volumes of employers, and respond swiftly to cases of wilful non-compliance. We will also be focusing on making re-enrolment easy and straightforward for large and medium employers and, in due course, for small and micro employers.

### Master trust quality

We welcomed the announcement of a new Pensions Bill, which proposes to give us new powers to regulate master trust schemes. We have voiced concerns for some time about the need for stronger legislative standards for master trusts and have worked with government and other regulators to improve levels of protection for members. We have also been calling for a significantly higher bar regarding authorisation and supervision, and are pleased that the new Bill proposes to give us the power to implement these safeguards.

We look forward to working with government over the coming months to develop the strategic application of these proposed new powers to ensure master trusts are strong, durable and well placed to deliver good member outcomes.

### New audiences

Over the coming months we will need to reach different audiences and address new challenges, including preparing newborn employers. Our communications approach will evolve to address these new challenges.



We will continue to build our compliance and enforcement capability to accommodate high volumes of employers.

## Phasing of contributions

The first change to minimum contribution levels takes effect in April 2018. We have started work on plans for communicating this effectively without affecting the confidence of employers who have already gone through AE, and promote the benefits of remaining in a pension. We will look to work with industry and with DWP on our approaches here.

## Adviser market capacity

Although many business advisers are already involved with AE, it remains important to encourage them to engage early with clients. Our research shows that employers and their advisers already have very strong levels of knowledge and understanding – but we need to ensure they can keep up with demand.

Our guidance and tools are designed to support this audience and provide fit for purpose information. We have designed our employer guidance so employers should not need to go to an adviser if they do not wish to.

Two years ago, as we moved towards the first peaks in numbers of medium employers reaching their staging date, commentators predicted problems with capacity and warned about payroll providers' and advisers' ability to cope. We've been encouraged at how advisers such as accountants have responded to the demand over the last three years and at how they are gearing up for the hundreds of thousands of employers still to come.

We urge advisers who handle large numbers of small or micro employer clients not to wait for their clients to contact them about their new duties, but to proactively find out when their staging dates are so they can plan their own workload.

## Employer staging forecast

We are setting out below our forecast of employers that we expect to stage until the end of 2017-2018.

As with last year's 'Commentary and analysis', we look at how many employers are yet to stage, as well as how many will have full AE duties<sup>3</sup> because they have eligible staff. We expect between 60-65% of employers to have full duties – ie to have eligible staff.



We urge advisers proactively find out when their clients' staging dates are so they can plan their own workload.

3

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

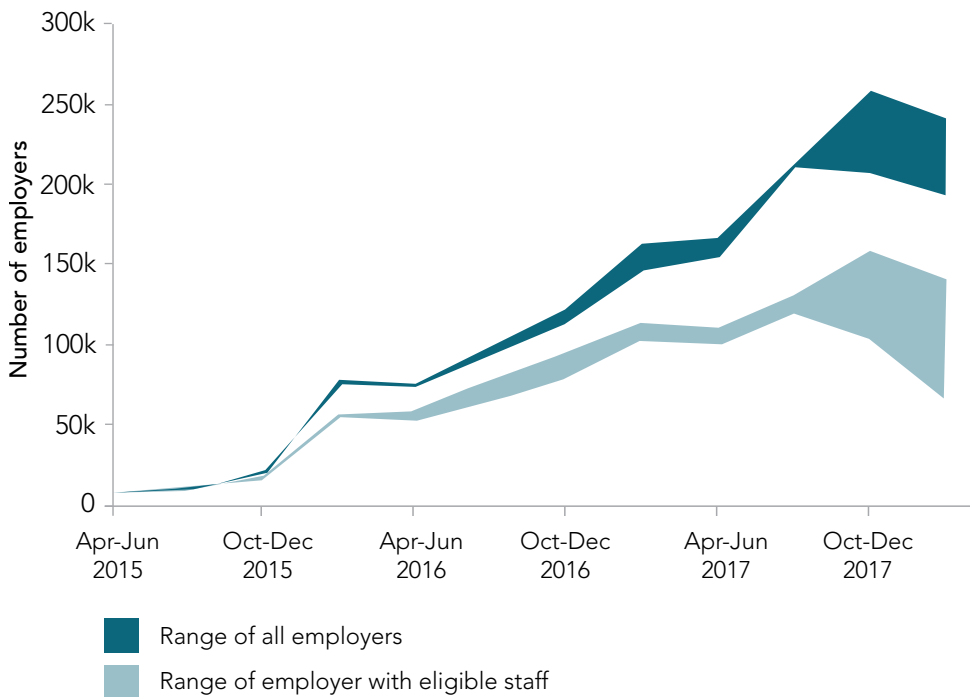
The remaining employers will still be subject to some duties such as needing to provide information to their staff and declaring their compliance with us. They may also need to provide a scheme for staff to join or opt into, as well as enrolling any future workers who are eligible, or existing ones that later trigger eligibility (for instance, when a 21 year old becomes 22). Our guidance says they should not set up a scheme until this is the case.

As this is a forecast, we are presenting this data as a range of how many employers are due to stage and have AE duties (and in order to manage industry expectations) based on a lower and upper estimate.

The forecast is uncertain – for instance, 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 (eg tax rules or internal process changes).

Figure 17 below shows the range of all employers that are due to stage per quarter based on upper and lower estimates (the dark shaded area), and also shows the range of employers that we believe will have full duties based on upper and lower estimates (the light shaded area). The corresponding volumes plus totals are displayed in Table 14).

**Figure 17: Quarterly forecast of employers due to comply with AE**





**Table 14: Quarterly data table of employer profile for small and micro employers (including newborn)**

Period	All employers		Employers with eligible staff	
	Upper estimate	Lower estimate	Upper estimate	Lower estimate
<b>2015-2016</b>				
Q1	10,600	10,600	8,200	8,200
Q2	11,000	11,000	10,800	10,800
Q3	18,300	18,300	17,700	17,700
Q4	78,000	78,000	56,000	56,000
<b>2016-2017</b>				
Q1	76,000	75,000	54,000	54,000
Q2	97,000	94,000	68,000	66,000
Q3	123,000	115,000	86,000	81,000
Q4	163,000	147,000	113,000	104,000
<b>2017-2018</b>				
Q1	168,000	156,000	110,000	102,000
Q2	212,000	212,000	130,000	120,000
Q3	258,000	208,000	158,000	106,000
Q4	241,000	194,000	141,000	67,000
Total	1,455,900	1,318,900	952,700	792,700

The majority of change compared with last year is due to identifying that a much larger number of businesses are companies with one director and no other members of staff (referred to as 'single person directors'). Since producing the forecast published in 2015, we have been able to identify more of these companies. We can now forecast more accurately as a result of our use of HMRC Real Time Information (RTI) data<sup>4</sup> and of feedback directly from employers in response to our 'all employer mailing' activity between January and July 2015.

Where a company has a single director and no other staff, it is not an employer for the purposes of AE and therefore is not subject to duties. These organisations were included in the number of employers in our previous staging forecast.

Where a company has more than one director and no other staff, it will only be an employer for the purposes of AE if more than one of the directors has a contract of employment with the company. Unless a company tells us that its directors do not have contracts of employment we have to assume that it is an employer with AE duties, when this may not be the case.

We are now moving to identify director-only companies in future years by way of HMRC RTI data, which will ensure that our data is able to more accurately identify employers who will need a pension scheme to put their workers into at their staging date, and is as up-to-date as possible.

However, it is important to emphasise that this forecast is an estimate based on the data and information we have now, and will continue to update it as new data or information arises.

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This year we have started to receive some RTI data from HMRC, which has helped us with some of our modelling assumptions.

**Figure 18: Small employers and eligibility**

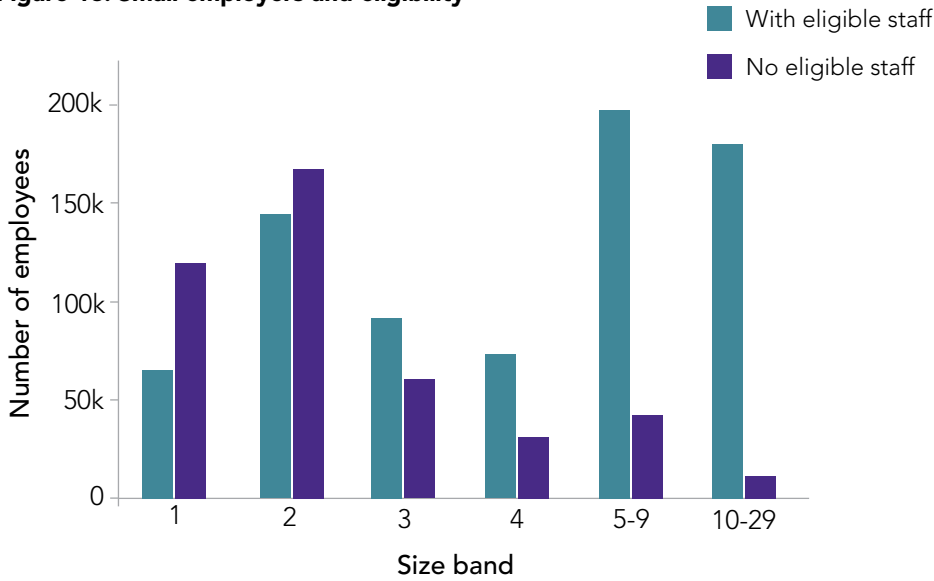


Figure 18 shows a breakdown of the number of small employers as of June 2016, split by size band, and whether they have eligible or non-eligible staff.

The majority of employers left to stage (57%) are micro employers (employing 1-4 people), and of this micro employer sub-total, just over a third (34%) employ just one person. As mentioned previously, we have tailored our guidance and website functionality for this particular audience.

**Figure 19: Breakdown of employers yet to stage by size**

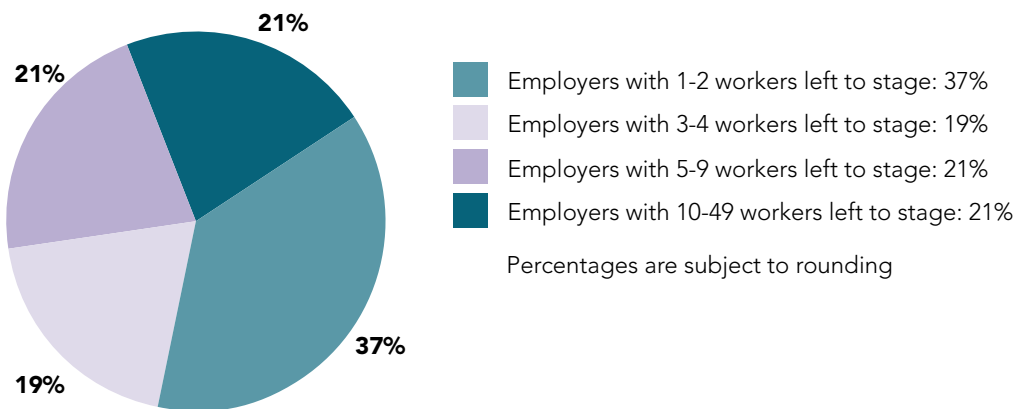


Figure 19 shows that, of the total of employers currently known to us who are yet to stage, the majority are employers with only one or two members of staff. A further 19% employ three to four employees.

## Reducing burden in the long term

We will continue to strive to improve our approaches to AE, maximise operational effectiveness and to consider ways in which the burden on employers can be minimised. We will do this by:

- ▶ identifying new data sources and using existing data more effectively, including RTI, to segment employers and ensure they receive the right volume of communications and messaging targeted at their specific needs
- ▶ using data to proactively identify key risk groups and look at ways to adapt our communication approach to target these employers
- ▶ ensuring that we continue to deliver effective and timely communications to unprecedented volumes of employers and to ensure that current levels of on-time compliance continue
- ▶ communicating the changes to the phasing of contributions to employers and helping them to make sure they are planning to incorporate this into their processes
- ▶ supporting employers to plan effectively, in order to minimise the impact of AE in the light of other regulation changes (eg changes to national living wage)
- ▶ putting in place an approach to support employers who have used DB transitional arrangements
- ▶ continuing to work with intermediaries and their representatives so that they have the capacity and capabilities to support employers with diverse needs
- ▶ working with DWP to find simplification or transformational opportunities through the 2017 review

We are also exploring further opportunities to extend our reach and communicate more effectively through extending and developing our partnerships with other government agencies and communications partners, for example HMRC.

This forward look should be viewed as an indication of the challenges and opportunities ahead, and is not exhaustive. It demonstrates that we will continue to reach out to employers and intermediaries to ensure we adapt and evolve our approach for the continuing success of AE.

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Free online learning for those running public service schemes

### **Automatic enrolment**

Commentary and analysis: April 2015 – March 2016

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