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NATIONAL EMPLOYMENT SAVINGS TRUST

NEST insight 2014

Taking the temperature of automatic enrolment

About NEST insight

NEST insight is our annual snapshot of the automatic enrolment landscape.

It looks at the behaviours and attitudes of members newly enrolled into workplace pensions and the experiences of employers who have set up schemes to comply with the new duties. It also looks ahead to consider the unpensioned workers who'll be enrolled in the coming years and the employers yet to reach their staging date.

In this year's report we look at worker and employer reactions to the first year of automatic enrolment. Our views are based on feedback gathered over the year from our customers, and in-depth quantitative and qualitative research. We've also looked at research conducted by The Pensions Regulator, the Department for Work and Pensions, and trade bodies, consumer groups and other government departments.

automatic enrolment

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Foreword

I'm delighted to introduce the second edition of NEST insight. A great deal has happened since we published the first edition – thousands of employers have staged with over 2 million people newly benefitting from a workplace pension, many of them in NEST. This year the report sets out what we've learned during the first full year of automatic enrolment and considers some of the unanswered questions ahead.

Our research tells us that consumers generally seem to like automatic enrolment, with opt-outs far lower than some expected. Opt-out is currently on average around 10 per cent, suggesting that inertia, combined with a more 'money-savvy' attitude, is playing an important role.

Saving for retirement has gone up the priority list for consumers, rising to third place in 2013 from seventh place in 2011. When asked, a majority of consumers agree that automatic enrolment is a good idea and it seems to fit into their evolving thinking about retirement.

So the helping hand they're getting to save seems to have come at the right time despite a challenging economic environment for many.

Our research also tells us that there will be challenges in the years to come. These include helping consumers bridge the gap between what they're likely to want in retirement and what they're willing to do to achieve it, and generally helping to build confidence among consumers in how pensions work. But the first critical step, getting people into a workplace pension, seems to be working well and consumers have given automatic enrolment what could be described as a quiet welcome.

2014 will be critical to continuing this initial success. Workers now expect their employers to deliver a pension and tens of thousands of employers will need to do so this year.

One of the principal purposes of *NEST insight* is to share our understanding of how to help employers get the job done. I hope this year's report does just that both for employers and the business service providers many of them will depend upon.

Our research has revealed gaps in the employer experience, for example between assumptions made before staging and the reality of the experience. Many employers who have now completed their implementation encountered unexpected challenges along the way, and were surprised at how long it took. If acted upon, these lessons learned can be hugely beneficial to automatic enrolment pension providers as we begin to help the larger volumes of employers meeting their staging date this year.

These employers have fewer resources and less knowledge of pensions than the larger employers who have staged up to now. Although research suggests awareness of the reforms is high, employers are hazy on the details and many haven't started making plans about what they need to do or understand how long it will take. As well as a lack of internal expertise, this suggests there may be quite a large gap in their knowledge. Our research tells us there is a clear expectation of help being available to 2014 stagers from intermediaries and others.

Make no mistake, this year will be tough. But I'm confident that working together we can all deliver.

Delivery this year is an important step on the path to the even greater challenge of delivering in 2015 and beyond. In this report we look briefly toward 2015. What will the small business sector want and need? What will they do? Employers in this sector may well act very differently to medium and large employers. We'll continue our research into the needs of employers in the future as we move towards the later periods of staging.

I hope you find this report useful and informative.

Tim Jones
Chief executive

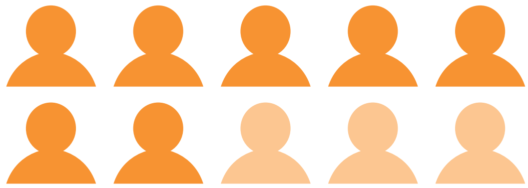
Summary

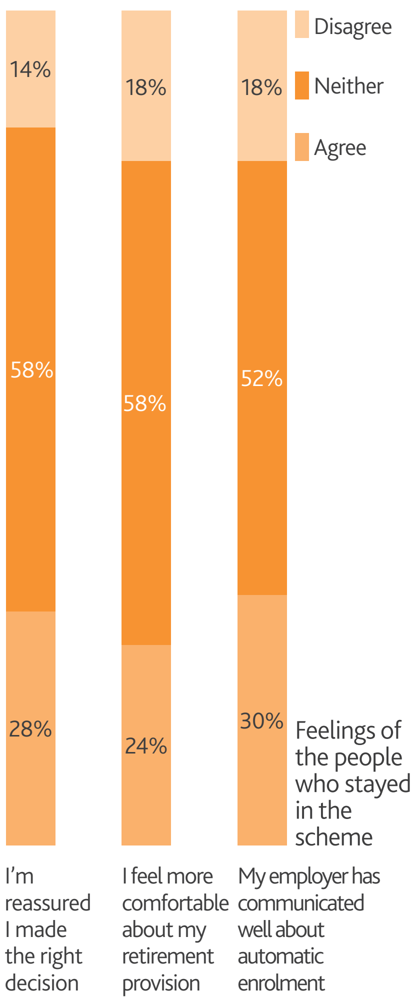
A quiet welcome for automatic enrolment

Consumers appear to have taken to the idea of automatic enrolment. Opt-outs are lower than expected with inertia playing an important role. When asked, a majority of consumers agree that automatic enrolment is a good idea.

86% are aware of automatic enrolment

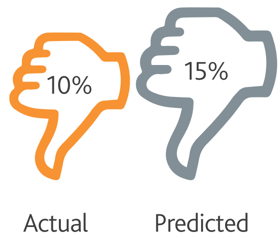
68% agree that automatic enrolment is a good idea





Feelings of the people who stayed in the scheme

Predicted opt-out rate based on consumer intentions in 2012 compared with actual opt-out rate



The top three motivators to stay in

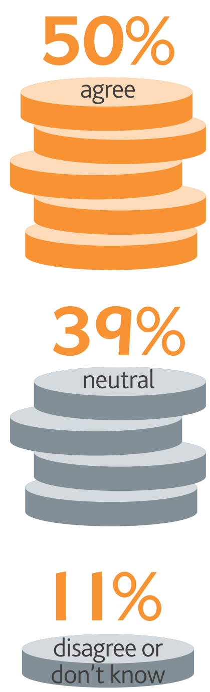
Consumer survey, 2013 (NEST)

Changing priorities

Our research suggests that pensions are becoming more of a priority for consumers. Recent research shows that the recession may be playing a part in changing consumer attitudes. There's now more focus on paying down debt and saving for the future.

2013		2011
Holidays/ travel	1	Holidays/ travel
Saving for a rainy day	2	Home improvements
Saving for retirement	3	Socialising and going out
Clearing debts and loans	4	Saving for a rainy day
Putting money aside to watch it grow	5	My car
Home improvements	6	Shoes and clothes*
Saving for a new home	7	Saving for retirement
Paying off the mortgage	8	Paying off the mortgage
Socialising and going out	9	Saving for a new home
Making sure my children have everything they need	10	Making sure my children have everything they need

Saving into a workplace pension increases the amount of money you have when you retire

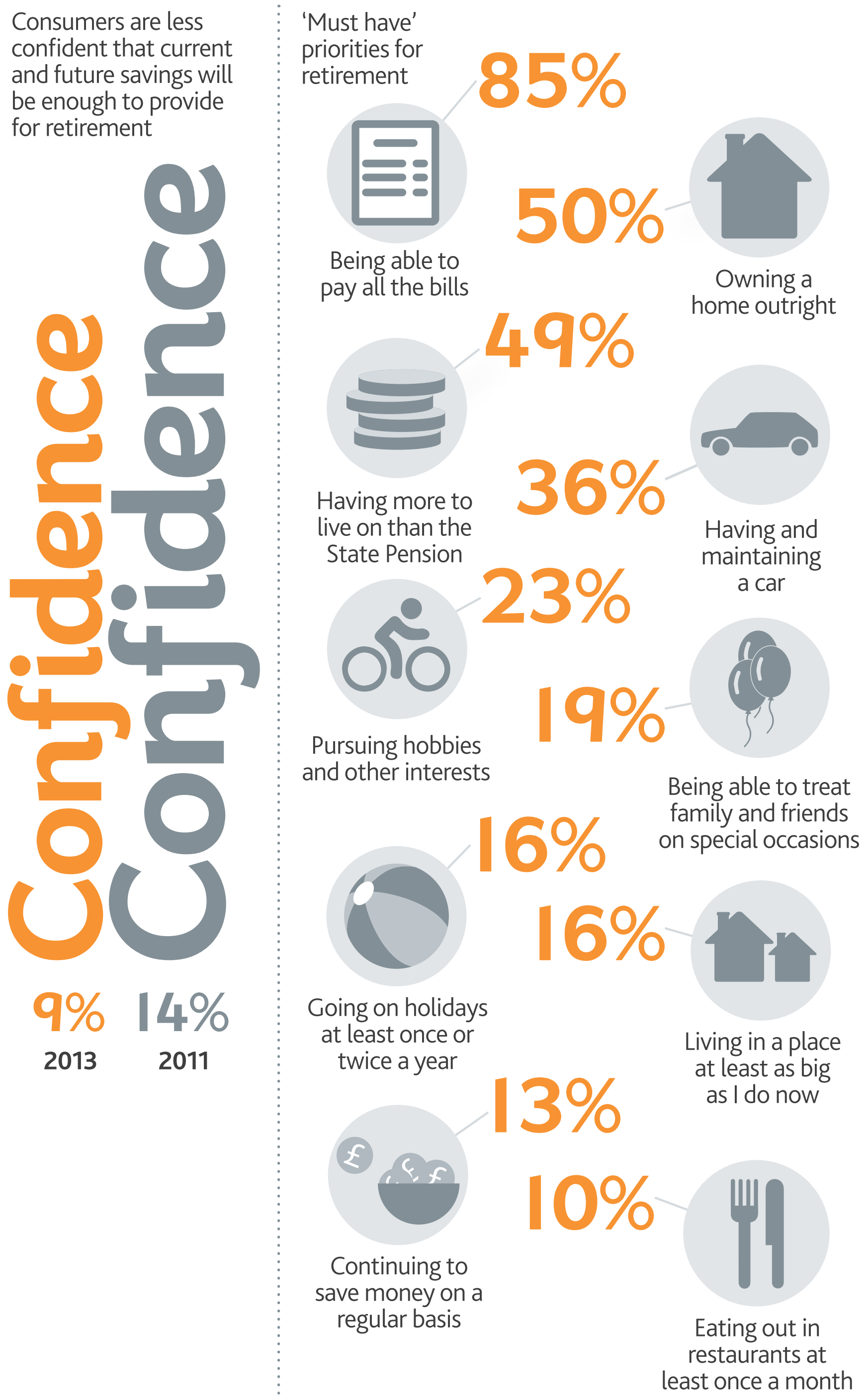


Consumer survey, 2013 (NEST)

*This item was not repeated in the 2013 survey

The confidence gap

While consumer appetite for pensions seems to be increasing, there's still uncertainty about how they actually work and what they'll deliver. People who think they're doing enough to fund their retirement are the minority and the proportion is falling. Understanding what people see as necessary or unnecessary in later life may help pension providers give savers an idea of what they might need to do to reach their goal.



Consumer survey, 2013 (NEST)

Do you know how much money you'll need in retirement?

Yes
48%
have an idea

this relies on annual income

Yes
42%
Yearly earnings under £15,000

Yes
57%
Yearly earnings over £30,000

What kind of target would help you to think about what you need for retirement?

50%
percentage of current income

73%
fixed level of income

35%
desired lifestyle

33%
lump sum

Are inertia and minimum contributions enough?

What else might help members think about their lives in retirement?

Setting **targets** for retirement

Managing expectations

Tools and **messages** to help them picture future needs

Reassurance around investment and uncertainty with pensions

More **control** over retirement pots

The employer experience so far – mind the gap

The first year of automatic enrolment has gone smoothly, with thousands of employers meeting their staging date and over two million workers automatically enrolled. Many employers encountered unexpected challenges along the way, and many were surprised at how long it took. These lessons learned will be hugely beneficial as we begin to help the larger volumes of employers meeting their staging date in 2014.

63% found it more difficult than they'd anticipated

55% found it difficult understanding the legalities of the reforms

one fifth of employers took over **16 months** to prepare

Employers reported that planning for automatic enrolment included coordinating lots of people in their organisation.

HR
The pensions department
IT
Payroll
Marketing and communications

Many employers put project teams in place and turned to employee benefits consultants (EBCs) and their legal advisers for help.

Key advice

What advice would you give to employers yet to stage?

Plan early

Communicate with your workers

Be prepared for low opt-out rates

Assess payroll to make sure it can cope with the additional demands of automatic enrolment

Check that worker data is clean before enrolling them

Employer readiness research, 2013 (NEST)

Automatic enrolment qualitative research with large employers, 2013 (DWP)

Great expectations

As with last year, most employers reaching their staging date plan to seek advice. Almost all of them will be getting advice about choosing a provider and many are also looking for help with systems and processes. In addition, the employers reaching their staging date in 2014 won't have the same level of resources to devote to getting ready and will be looking to business service providers for help.

9 out of 10 expect to seek advice in choosing a scheme

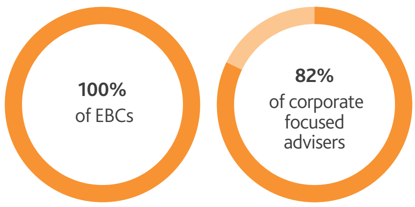
74% say they'll seek or have sought further advice

Half say they're willing to pay for it

Employers expect support from:

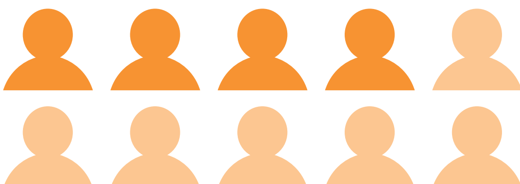
Pension providers
Payroll providers
IFAs

Have you identified new service opportunities in automatic enrolment?



Proportion of clients staging in the second year

48 per cent of EBC clients



38 per cent of corporate-focused IFA clients

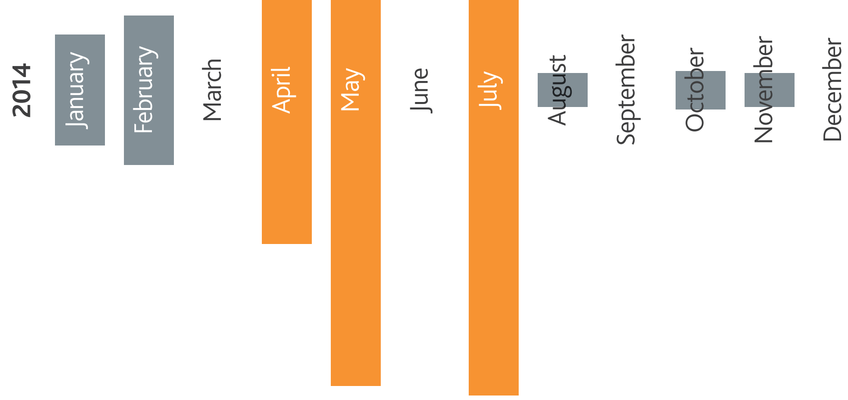
Employer readiness research, 2013 (NEST)
Intermediary research, 2013 (DWP)

The 2014 challenge

In 2014, there will be many more employers reaching their staging date than in the previous year. In addition there are fewer resources and less knowledge of pensions among these mid-sized employers than among the larger employers. While awareness is high, employers are hazy on the details and haven't started thinking in depth about what they need to do or how long it will take.

3 out of 4

employers staging in 2014 are doing so between April and July



Do you know your staging date?

	100 to 999 workers	50 to 99 workers
2013 survey	93%	68%
2012 survey	68%	30%

23% employers staging between February and July 2014 who've confirmed their provider and done everything they need to do to prepare for automatic enrolment

4-6 months the timeline most employers staging in 2014 said they'd allow for getting automatic enrolment in place

53% aware they can postpone for three months

12% say they expect to use a waiting period

Automatic enrolment: Employer forecast staging profile, January 2014 (TPR)

Employer readiness research, 2012-13 (NEST)

Employer pension provision survey, 2011 (DWP)

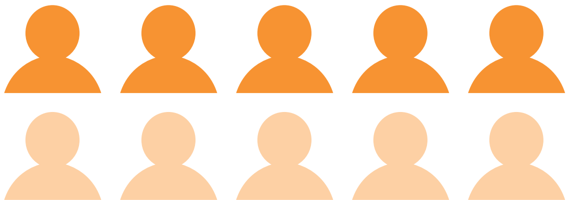
Employer decision-making survey, 2009 (PADA)

one third

of employers staging in 2014 offer either no pension or have a stakeholder pension scheme in place with few or no members

52%

of employers with between 50 and 499 workers said that they had a good understanding of the pensions market



Common misconceptions and assumptions

There'll be a lot of work leading up to the deadline but then our work is done.

Pension providers won't turn down my business!

Once we've chosen the pension provider everything will be done for us.

It's like stakeholder pensions, most people will opt out.

My payroll provider will have advice and software updates to help me automate the whole process.

How can we help the next wave of staging employers?

We're all aware of the capacity challenge that awaits us in the next year and in particular the next six months. There are also opportunities to further cement the idea of workplace pensions in the minds of consumers and employers. Our research and our experience with employers in 2013 has led us to form some broad principles that can guide our response to the next year of staging.

1 The power of now

Just telling employers that it might take 12 to 18 months to prepare doesn't necessarily work. The 'act now' messages could be tied to specific events to inspire employers to act.

2 Break down the tasks – this isn't just about pensions

To help employers understand everything they'll need to do it's helpful to break it all down into easily digestible elements. This may help employers feel less daunted about the task ahead and make the steps easier to understand.

3 Frame the challenge

It may help these employers understand what compliance entails if different points of reference can be found. Referring to previous big regulatory changes like the provision of real-time information for PAYE will help them understand how the new duties have wide-ranging business process implications.

4 Clear communication benefits all

Clear communications around automatic enrolment can save employers time and administration by answering the questions and concerns their workers may have. It's also an opportunity for employers to show they're on the same side as their workers and to highlight the benefit of the employer contributions. Smaller employers may not have the time and resources to put together internal communication campaigns and so template communication materials that employers can use with minimum adaption are likely to be welcomed and useful.

5 An opportunity for intermediaries

Employers staging next year are likely to have some if not all of the workforce and payroll complexities faced by the largest employers. Generally speaking, they're also less knowledgeable and confident about pensions and the reforms. There's a significant opportunity for different business service providers to offer compliance and ongoing administration services to these employers in 2014.

Policy background 2014

Following the launch of automatic enrolment, the reform of pensions continues. In the last 12 months the government has focused on charges and making sure automatic enrolment continues from a firm footing.

It's been an important year for UK workers with automatic enrolment into qualifying pension schemes creating unprecedented new demand. The main headline for the demand side of the market has been the low level of opt-outs by automatically enrolled savers.

When given the chance to save, around 10 per cent of workers have turned it down. NEST's own research with The Futures Company suggests that consumers have reacted positively to the reforms, even in difficult economic times with a 'new realism' about the importance of saving for the future.

On the supply side of the market, this year has seen significant moves by the government, industry and regulators to complement this increase in demand with reforms to assure the quality of schemes provided. These moves have covered three main areas:

- promoting transparency and reducing charges
- regulating for quality
- securing the future of automatic enrolment.

Promoting transparency and reducing charges

The pensions industry has made efforts to better disclose the structure, level and impact of charges being levied. The Association of British Insurers (ABI) produced an online tool, now hosted by The Pensions Advisory Service (TPAS), designed to allow employers to understand the combined effect of charges on an average worker's retirement pot.

Similarly, the National Association of Pension Funds (NAPF) worked with a variety of stakeholders to put together a code on how the impact of charges should be communicated to employers, using this ABI resource. The guidance of the Investment Management Association (IMA) on enhanced disclosure of transaction costs was also implemented this year and NAPF proposed that there should be a 'pounds and pence disclosure' of these costs at a unit level.

These initiatives have been broadly welcomed by a variety of stakeholders although it is, of course, too early to judge their long-term success. More recently, amendments to the Pensions Bill seek to grant the Secretary of State the power to 'set the standards by which pension schemes must declare charges and transaction costs'. There's a sense that both industry and government are moving towards common disclosure standards.

Beyond disclosure, numerous measures to reduce charge levels have been suggested, prompting further debate. Consultancy charging was banned for automatic enrolment schemes and implementation of the long-anticipated Retail Distribution Review (RDR) caused advisers to move away from commission-based business models.

Analysis carried out by the Office of Fair Trading (OFT) showed that charges – measured through the average annual management charge (AMC) – have gone down in recent years, but the demand side of the market isn't strong enough to guarantee future progress. This prompted the government to consult on a charge cap for automatic enrolment schemes.

The wider debate continues as to how to strike a balance that limits charges perceived to be excessive while allowing schemes to levy charges that offer consumers good value.

Regulating for quality

There has also been renewed focus on the quality of schemes used for automatic enrolment.

A variety of quality standards have been proposed to offer reassurance to employers and workers. NAPF has promoted use of its Pensions Quality Mark and The Pensions Regulator published standards for 'good DC'. The OFT reflected this theme in its market study by investigating the extent to which governance arrangements and the size of schemes relate to the quality of member outcomes.

Securing the future of automatic enrolment

The government has made various proposals in an attempt to remove barriers to savers building up a pension pot for the longer term.

In April, it was confirmed that short service refunds will be banned from next year, enabling more workers to start and continue saving. Efforts have also continued to develop a way for workers to consolidate their retirement savings rather than have many small pots. More imminently, proposals were also put forward to simplify the automatic enrolment process for employers.

The OFT's market study into defined contribution workplace pensions provided wide-ranging scrutiny on the market. It proposed measures to improve governance by aligning incentives between providers and consumers, and to ensure that legacy schemes offer value for money.

The role of NEST

NEST's role in the future of the reforms has also been clarified. In July 2013, the government announced that it will legislate to remove the individual transfer restrictions on NEST to coincide with the launch of automatic transfers for small pots. It will legislate as soon as possible to lift the other constraints from April 2017.

This should reassure employers that if they believe NEST is the best option for their workers, the cap shouldn't be a barrier to them using it to fulfil their duties. It will also allow individuals to top up their contributions to help them meet their aspirations in retirement. Removing the cap on contributions by April 2017 means that the cap will be gone before minimum contributions start rising from the introductory level of 2 per cent in October 2017. The removal of the transfer restrictions will allow members to consolidate their pension pots as they move jobs.

Summary

The past year has demonstrated intent from the government, industry and others to secure the long-term success of automatic enrolment. As large volumes of smaller employers meet their staging date, 2014 will expose greater numbers of people to the disclosure, charge reduction, and regulatory measures put forward in 2013. Evidence from this experience and the OFT's recent market study will inevitably guide the future of workplace pension provision.

Automatic enrolment and workers

Early signs are that automatic enrolment has been broadly successful and people like the idea of having their pension sorted out for them. But now we've successfully got people over the starting line there's an opportunity to help savers think about what they want from their retirement.

Last year we looked in detail at 'the new mainstream' of pension savers that were set to change the face of the pensions industry. Automatic enrolment is bringing a more diverse audience into the pension market than before. Rather than being a niche product for higher earners, pensions are now taking this new mainstream into account.

NEST insight 2013 focused on the 'unpensioned', the 68 per cent of private sector workers who weren't paying into a workplace pension and would be caught up in automatic enrolment. We discovered that while they're capable short-term financial planners, longer-term financial planning was a struggle for them. On top of this we found that they were concerned about whether they could afford the loss of the day-to-day income required to make contributions and there was a general feeling of distrust for financial companies like pension providers.

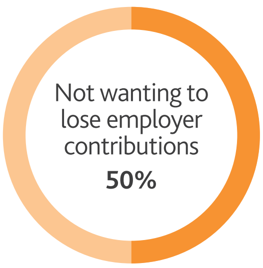
This year we've had a chance to see how these new savers actually react to being automatically enrolled. The headline data is encouraging. Opt-outs are low and in general consumers have welcomed being automatically enrolled. The message seems to be that it's given them some confidence that their future is more secure.

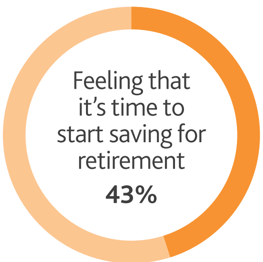
This is just the first step, however. Now that people are getting comfortable with the idea of saving in an investment-based product for their future, it's worth considering what else we can do to encourage good member outcomes. For example, could providers help savers form ideas about the kind of life they want in retirement and get a realistic idea of what they might get when they take their money out? From here we could start helping them understand the things they can do to improve their potential outcome if they want to.

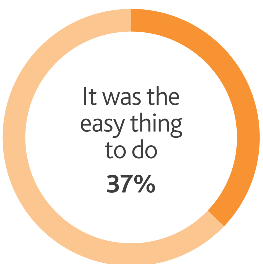
A quiet welcome for automatic enrolment

In NEST's 2013 consumer survey, 41 per cent of respondents said that they'd put off saving so far because they didn't want to make the wrong decision. Only 13 per cent agreed that they knew enough about pensions to decide with confidence how to save for retirement.

Into this context of perceived complexity and the difficulty of decision-making, automatic enrolment has been positively received – 68 per cent of people we surveyed agreed that it was a good idea. For those who had been enrolled and not opted out, the top three motivators to stay in were:







Opt-out rates are lower than expected

As we stated in the previous *NEST insight* report, estimates of opt-out rates based on survey data and stated intentions can be quite different to what happens in reality. The DWP's research in 2012 indicated that 15 per cent of those eligible for automatic enrolment said they would probably or definitely opt out. 15 per cent were undecided, and 70 per cent said they'd definitely or probably stay in.

Results from subsequent research by the DWP in 2013 with both those yet to be automatically enrolled and those who have been automatically enrolled indicated that those who said they weren't sure what they'd do typically stayed in once enrolled. Taking this into account, we might therefore expect the opt-out rate to be similar to the position of people who said they would definitely or probably opt out.

As it turns out, though, opt-out rates have been lower than this. NEST has an opt-out rate of only 8 per cent to date and these low levels of opt-out have so far been the norm - DWP research published in October based on information from large employers showed average opt-out rates of only around 10 per cent for people enrolled between October 2012 and July 2013. These opt-out rates are in line with those seen after automatic enrolment in the US and with Kiwisaver in New Zealand.

This is in spite of rising pressures on household incomes. As we reported in our October 2013 publication *Automatic enrolment and the new consumer realism*, households in the UK are under increasing economic pressure. Despite some signs of modest economic recovery, real household incomes are still below their 2008 levels and per capita incomes are not increasing as quickly as headline GDP.

A relatively long period of stagnant wages and unstable employment has also dented people's confidence in the wider economy. Research suggests that consumers retain an ingrained pessimism about the economy, despite modest economic growth. Ipsos MORI found in their November 2013 Political Monitor survey that even though people were noticeably more positive about the economy than they had been at the beginning of 2013, 77 per cent did not expect economic growth to have much impact on their own standard of living over the next year.

In the consumer surveys we've carried out at NEST we've been looking in particular at the views of:

- people without pensions who are eligible for automatic enrolment
- people who have been enrolled in a workplace pension since October 2012.

In last year's *NEST insight* report we highlighted the fact that 23 per cent of respondents to our 2011 consumer survey said that it was a 'struggle to cope with day-to-day expenses'. When we repeated the question in our 2013 consumer survey the proportion of people expressing this view had doubled to 46 per cent. As might be expected, those on lower incomes were more likely to be feeling the pressure – 51 per cent of those earning between £15,000 and £19,000 a year and 56 per cent of those earning under £15,000 a year reported they were struggling. In our 2011 survey 58 per cent of those surveyed said they had less than £100 a week to spare after taking care of basic living costs. In our 2013 survey this figure increased to 75 per cent.

So despite tentative signs of a gradual return to growth in the wider economy there seems to be little confidence among consumers about their own immediate economic circumstances and prospects. Returning to the Ipsos MORI Political Monitor survey, only 23 per cent felt their personal circumstance would get better over the next year. The remainder either felt it would get worse – 33 per cent – or stay the same – 42 per cent – over the next year.

What's driving low opt-outs?

In the face of these widely understood financial pressures, there's been some effort expended to find out what's making people stay in a workplace pension when automatically enrolled. DWP research with large employers has offered a number of explanations for the low opt-out rates experienced in the UK so far.

Power of inertia

The behavioural evidence gathered from actual examples of automatic enrolment around the world, despite differing circumstances and contexts, has underlined the powerful effect of inertia on minimising opt-out rates. Many employers surveyed by the DWP mentioned that once workers were enrolled in a scheme they tended to follow the path of least resistance rather than go to the effort of opting out.

Low starting contributions

Some employers mentioned the low starting contributions, as workers are less likely to see this level of deduction as having a serious effect on their day-to-day finances.

To test how this might change as minimum contribution rates increase after 2017, as part of our 2013 consumer survey we showed people what the rising contribution would look like in monetary terms, based on their salary.

While almost nobody found the current 1 per cent automatic enrolment contribution to be too much, many said they would consider stopping contributions when rates rise.

However, as we've seen from forecasts of opt-out based on people's predictions of what they'll do in the future this isn't a reliable guide. There will be many other factors affecting what individuals actually do, including the impact of the employer contribution, their economic circumstances at the time, and individual inertia. On economic circumstances and outlook, should the economy return to annual wage rises matching or above inflation the increases in worker contributions may be less acutely felt.

Employer communications

Effective employer communications and having a 'pension culture' – which was mentioned particularly by larger companies – were also cited in the DWP's research as potential reasons for the low opt-out rates. As we noted in *NEST insight* last year, reassurance that their pension is being taken care of by a low-maintenance approach driven by their employer was one of the strongest motivators for staying in the scheme. This reassurance is being driven to a large extent by positive internal communications convincing workers of the benefits of pension savings. For the larger companies, a more generalised awareness and understanding of pensions was the result of a large majority of workers already participating in a workplace pension. For workers in these companies, being in a workplace pension was perceived as the norm.

As staging progresses through to 2017, automatic enrolment will spread out through the smaller and medium-sized employers who may not be able to devote the same level of resources to employer communications. We further discuss the importance of communications from the employer's perspective in the chapter on employer reactions to automatic enrolment.

Pension saving a higher priority

The DWP research also mentioned that some employers felt that their workers 'clearly agreed with the principle of pension saving'. NEST's research also shows that retirement generally is becoming more important in people's minds.

In NEST's 2013 consumer survey, saving for a pension had risen to third place, behind only holidays and 'saving for a rainy day' when we asked people where they would prioritise spending if they had more money. This is a significant rise compared with our 2011 consumer survey, where pensions came seventh in priority order behind things such as socialising and going out.

So saving for later life is rising up their list of priorities in terms of where they would focus their resources if they had more 'spare' money. This indicates that more people are recognising the importance of saving for retirement, although given pressures on household incomes they've been held back by a perceived lack of money.

As we've seen though, even when finances are tight this doesn't seem to have resulted in high opt-out rates.

In *Automatic enrolment and the new consumer realism* we noted that consumer attitudes to money and consumption are changing and may be reinforcing the default effects. Recent research findings show that the recession has influenced changing consumer attitudes to money, with a trend towards paying down debt and an increasing need to feel as self-sufficient as possible. This need for greater self-sufficiency seems to be extending towards the longer term as people feel more need to prioritise providing for their retirement.

Encouraging the savings culture

The inertia effect on which the automatic enrolment policy depends seems to be having the desired effect. Awareness of automatic enrolment among consumers is high and opt-out rates are low, at least for now. Over the longer term, however, there are challenges and opportunities that will need to be confronted or exploited to develop a positive and consistent savings habit rather than rely on inertia.

The October 2013 National Association of Pension Funds (NAPF) Workplace Pensions survey showed that automatic enrolment has already had a positive impact on confidence in pensions. The proportion of people agreeing that they have confidence in pensions had risen to 59 per cent from 50 per cent 12 months before.

Low opt-out rates confirm that the automatic enrolment policy is getting people to the starting point, with many comfortable that they now have a pension plan in place. However, there is a risk they may believe that this is all they need to do in order to take care of themselves in retirement.

One of the key challenges for developing confidence in future income and resources for retirement is ensuring that savers' aspirations and likely outcomes are aligned. We should be trying to close the gap between members' lifestyle expectations and what they're likely to get.

The first step to establishing this type of confidence is for savers to have a clear, realistic savings target. They need to ask themselves, 'what do I need in retirement?' They then need to understand the difference between what they see as an adequate lifestyle - what they need - and their desired lifestyle - what they ideally want.

Our research shows that people find it difficult to think about this. They struggle to understand what they might need in terms of income or to set broader goals around expectations of lifestyles. This presents an opportunity for pension providers, advisers and policymakers to help, by providing tools relevant to the way people visualise retirement. That may be by seeing their outcome in terms of either a percentage of their income or lifestyle aspirations, like having a holiday abroad every year. These types of exercise can help members think more clearly about what they can expect from pension savings.

With a better understanding of their options and their desired outcomes, savers will be able to understand more fully the gap between their expectations and what they may actually be able to achieve. This will allow them to take appropriate measures to close that gap, such as increasing contributions or working a few years extra.

In our 2013 consumer survey we found that only 9 per cent of respondents were confident that their current and future retirement savings would be enough to provide for them in retirement. This is even lower than the 14 per cent who responded positively when we asked the same question in 2011.

How much do people need and want?

There is, quite rightly, much discussion currently about how much people need to put aside to sustain an adequate income in retirement. Regardless of definitions of adequacy based on replacement rates and other quantitative criteria, a fundamental question to ask is this - what do people actually expect in retirement?

In our consumer survey we asked people if they had an idea of how much money they thought they would need to live on when they retired. Only 48 per cent – less than half – said they did. Those who said they did have an idea were then asked to estimate how much they'd need as an absolute minimum. The average figure given by those who could provide an estimate was £14,156. This is less than half the current average income for this group, £30,606. So for those who have any expectations, they expect to retire on an income considerably less than what they currently earn.

It's also evident that it's generally higher earners who feel that they can give an estimate. Only 42 per cent of those earning under £15,000 felt they could give an estimate compared to 57 per cent of those earning over £30,000.

Lower earners who did have a view on what they might need were more likely to need an income closer to their current income. For those earning under £15,000, 77 per cent felt that they needed an income either the same as or more than their current income, while 90 per cent of those earning £30,000 or more felt that they needed less than they currently earn. It's worth bearing in mind, however, that a larger proportion of the lower paid are younger workers who may reasonably expect that they will increase their earnings over their working life.

Case study

Joseph Mulligan

22, recruitment consultant at Kelly Services

Automatic enrolment kind of took one thing off my mind so I didn't have to go looking around for how to sign up – it was just done for me. There was definitely a general positive feeling about the whole process with everyone. I don't think I know anyone that's opted out in my office.

> "I don't think I know anyone that's opted out in my office"

You're getting a good deal with the employer contribution and it's being set aside for the future, so it's not something you have to constantly think about and make sure that you're doing. I think it's fair to have an opt-out rather than an opt-in scheme. You have someone else think about it while you're just working away.

Regardless of how much they felt they needed as an absolute minimum, less than half of all respondents – 49 per cent – were confident that they would achieve it. Only 9 per cent were very confident of getting what they needed in retirement. So, not only are people uncertain about what they'll need in retirement but those who do have an idea don't have a great deal of confidence that they'll achieve it.

This research underlines the difficulties that people have in estimating the income they'll need in retirement. Unsurprisingly, it's more difficult for younger people. Only 40 per cent of those aged under 40 felt that they had an idea of what kind of income they'd need in retirement, compared to 57 per cent of those aged over 40.

As we reported in last year's *NEST insight*, we know that people have an innate tendency to discount future needs and this may be exacerbated by pressing and immediate demands on their cash. It's therefore not surprising that they find it hard to imagine what they'll need in the future.

Setting a target for retirement

Since last year's *NEST insight* report we've probed this issue in depth using qualitative research conducted with people eligible for automatic enrolment. They were presented with the principle of working 'back to front', setting a target retirement pot and then calculating the required contributions necessary to reach the target. In theory they were very positive about this idea, summed up by one respondent with the remark, 'It's less of a gamble if you've worked out what the figure is you've got to try and hit.' In practice, though, they felt that they didn't have enough of the necessary knowledge to make it work.

Without prompting, most people were unable to predict how much they would need to live on in retirement. Notably, in the group discussions that we carried out for this research those who couldn't predict their future needs were comforted by the fact that few others in the groups were able to able to answer – it was very much the norm. Few even felt able to engage with this concept. Many had no idea about what happens at retirement and were confused as to whether they'd get a pot of money or a stream of income.

Where people were able to make an estimate, they used a common-sense approach based on current income minus mortgage and other costs not required in retirement, with variations based on current and expected salaries and commitments.

Other approaches to estimating future needs

Over the year, we've explored alternative approaches to estimating future needs. In our qualitative research we tested the idea of using lifestyle-based targets. Using this approach we could say, 'This is what you'll need if you want to retire in 2030 and maintain this type of lifestyle.'

People felt that this could be a useful tool to help them estimate what they'd need in retirement rather than relying on their own assumptions around current salaries and expected costs. However, many commented that the lifestyle-based targets needed to be realistic and tailored to a real understanding of their needs.

In our 2013 consumer survey we asked people to think about a number of different ways that they might think about what they need in retirement to live comfortably. We presented a number of options and asked which helped them to think more easily about what they'd need.

The options were:

- a percentage of their current income
- a fixed level of income
- a lump sum
- a desired lifestyle, such as living somewhere as large as their current home, being able to own and maintain a car and being able to pursue particular hobbies.

A fixed level of income was the first or second choice of 73 per cent of respondents. Exactly half placed a percentage of current income as first or second, with desired lifestyle given by just over a third – 35 per cent – and a lump sum by just under a third – 33 per cent.

While a fixed level of income came out on top overall, there were some noteworthy trends in the responses. Desired lifestyle tended to polarise people – 20 per cent gave it as their first choice, whereas 41 per cent gave it as their last choice. Higher income segments were the most likely to prefer this approach, with 25 per cent of people earning over £30,000 giving it as their first choice.

In terms of lifestyle, we asked people about their priorities in retirement. What do people see as must haves, what's nice to have and what can they live without? Understanding this could help us talk about some more realistic lifestyle-based targets that might resonate with members.

Lifestyle

Must have priorities for retirement

- 85% Being able to pay all the bills
- 49% Having more to live on than the State Pension
- 23% Pursuing hobbies and other interests
- 16% Going on holidays at least once or twice a year
- 13% Continuing to save money on a regular basis
- 50% Owning a home outright
- 36% Having and maintaining a car
- 19% Being able to treat family and friends on special occasions
- 16% Living in a place at least as big as I do now
- 10% Eating out in restaurants at least once a month

Unsurprisingly the basic need to pay all the bills comes out on top, followed by securing home ownership. A car and being able to keep pursuing general hobbies and interests were seen as more important than other factors, like treating families and friends, frequent holidays, saving or going to restaurants.

While having more to live on than the State Pension is in the top three, what's perhaps surprising is that 45 per cent of respondents – nearly half – think this is only a nice to have. This may reflect a lack of knowledge of what they'll get from the State Pension, because we didn't provide this level of detail to respondents, or a general lack of engagement with pensions and saving for retirement. It could also just be that they have low expectations. We've already seen the data from our survey showing the lack of confidence in what people have put aside for retirement so far, and even when they have an idea of what they'll need in the future they don't feel confident that they'll achieve it.

NEST's survey also showed that people who have been more engaged in pensions saving are more likely to regard having more to live on than the State Pension as a must have. From the same survey 60 per cent of those who had a personal pension thought it a must have and only 36 per cent a nice to have. In contrast, only 39 per cent of those without a pension or any previous pensions experience regarded it as a must have, and 53 per cent a nice to have.

Research from the DWP on predictions of income in retirement reinforces this theme. People who were highly engaged in predicting their income in retirement tended to be those that 'took ownership' of their financial future, assuming responsibility for their financial welfare and accorded priority to securing their income in retirement.

In our latest consumer survey we asked a new question about where people expect the greatest proportion of their income to come from in retirement. In response, 59 per cent of people who've been automatically enrolled expected it to come through their workplace pension savings.

This sets a high expectation on their workplace pensions that may very well not be born out in the future. What could workplace pension providers do to help savers get an accurate idea of their incomes in retirement?

- Encourage members to take an interest in their retirement pot and potential outcome.
- Provide better projections of what members might get in the end and how this might work alongside other assets.
- Help savers figure out realistic savings targets and give them good information on how to achieve them.
- Show savers how even relatively modest retirement incomes can make a big difference to their future lifestyle.

Building knowledge, understanding and trust in pensions

People's lack of knowledge, understanding, and trust in pensions is what fuels their lack of confidence in future retirement incomes and is the source of the difficulty they have setting expectations for the future. NEST's March 2013 consumer survey showed that most people have only a very basic understanding of pensions. Only 23 per cent claimed they knew anything about pensions 'in any detail', with 63 per cent stating that they knew only that they were 'products for retirement'. 12 per cent said they knew nothing about them at all. Among younger people the proportion saying they 'know nothing' about pensions rose to almost one in five, at 19 per cent.

As we stated in the last *NEST insight* report, even where there's some basic knowledge this is often flawed and based on misunderstandings and misconceptions centred around what 'investment' means and likely outcomes.

Our research also shows that trust in the financial sector is still an issue for around a quarter of those eligible for a workplace pension. In response to our consumer surveys of 2013, 24 per cent said that they don't trust banks and financial advisors, rising to 34 per cent among those who'd opted out of their workplace pension. A significant minority of 21 per cent stated that they didn't trust pension companies.

Since the last *NEST insight*, our research into the experience of members enrolling with NEST over the last year has highlighted the importance of continuing to foster trust among those enrolled into a scheme. There were considerable variations in the extent to which people sought reassurance on first being enrolled. Some entered quite passively into the scheme while others actively sought advice about NEST and automatic enrolment from their employer, family, friends or colleagues. However actively they sought this reassurance, two broad issues were of key importance at the point of enrolment and beyond – trust and control. They needed to be able to place their trust in their scheme and feel in control of their money.

Confidence
What members need

Trust

- The service is professional
- My money is safe
- Doing this makes my future more secure
- A pension is a good idea

Control

- I know what's happening to my money
- I'm happy with how my pension is managed
- I can afford a pension
- I have some control if I want it

The need for more certainty

Although there seems to have been a quiet welcome for automatic enrolment, people may in fact be reserving their judgement around the ultimate benefits in the longer term.

Research conducted by the DWP in June 2013 on adults of working age showed that the employer contribution was the most mentioned benefit of workplace pensions, mentioned by 39 per cent of all adults. The DWP's campaign to position automatic enrolment as a normal, everyday activity – the 'I'm in' campaign – also seems to have had an effect, with 82 per cent of those who said they were already enrolled or intending to stay in agreeing that 'people like me save into a workplace pension', and 81 per cent saying 'most people in my workplace save into a workplace pension'.

Despite this enthusiasm, the longer-term view is more restrained. From the same survey, while 50 per cent of working-age adults agreed that 'saving into a workplace pension increases the amount of money you have when you retire', 39 per cent – almost two-fifths – were neutral, and the rest either disagreed or didn't know.

From NEST's research there is similar evidence of reservations of judgement. 20 per cent of people in our latest consumer survey in 2012 agreed that 'there's no point in having a pension if you can't be sure how much you will end up with at the end'. For those who have opted out of a workplace pension, this figure rises to 37 per cent.

How could pension providers tackle this unease?

Saving into a workplace pension scheme has traditionally been a low engagement activity. Members are relatively unlikely to make proactive contact with their providers and we've no reason to believe that the newly automatically enrolled will be any different. Given their relative lack of experience, they may be even more passive. This means that they're unlikely to think about their outcome until relatively late in their savings career and may be surprised that their future isn't as secure as they assumed.

Communication is one of the best ways of addressing these concerns. NEST has conducted a number of research projects around investment communications to explore how we can talk about investment and our proposition to our members. We're trying to find out how we can give members information about their benefits and forecasts of potential outcomes in a way that discourages poor decision making, such as ceasing contributions, and provide a sufficient level of accessible information to those members who want it.

> "Just too much chance. It's all down to chance isn't it?"

Case study

Karen Kelly

28, receptionist at Travelodge

I've never had a pension before this. I've got two young children so when I heard about this I was glad to be in it, for the future. I was slightly worried about the cost, but once you'd actually looked into it, it was clear what would be taken out and so it wasn't a big worry once I'd actually read all the information. With the government and my company paying in as well, it wasn't just my contributions going in. Obviously you think it's not really worth it if it's only that small contribution, but it actually builds up quite fast because of that extra money.

> "I've got two young children so when I heard about this I was glad to be in it, for the future"

The research reinforced the findings we reported last year on peoples' understanding of pensions and investment. These are worth repeating here:

- Everyone understands that the goal of a pension is to grow their contributions but people are less clear where this growth will come from.
- Many people expect their pensions to grow in a uniform upward fashion.
- People in a pension scheme struggle to picture what happens to their money or where it actually goes.
- For unpensioned workers retirement planning is about safety and securing the future, and therefore at odds with ideas of chance, risk and uncertainty.
- For the automatically enrolled member risk is inherently negative and is more to do with the chance of making a loss than making a gain.
- Similarly, uncertainty is always perceived in a negative light and suggests the possibility of a disappointing or worst-case scenario outcome, rather than the possibility of getting a better outcome than expected or even just slightly less.

From our investment communications research we explored how to develop a member-facing investment narrative to help us answer the three key questions that people have about pensions:

- How is my money invested?
- Why does the money go up and down?
- What will I get at the end?

These questions all circle around the concern that many have that their money's not safe in a defined contribution pension scheme. The heart of the difficulty lies in the mismatch between the view that pensions are all about safety and future security and the issues of chance, risk and uncertainty that are central to an investments-based saving vehicle. Is it possible to create a narrative where these notions of uncertainty and risk become neutral rather than disastrous for members?

> "I just don't think savings should be a gamble. I think that's out of order. It's a savings plan that's what it is, not a gamble."

One potential option is to communicate investment objectives as returns in excess of inflation. While this provides a reassuringly concrete figure, this doesn't alleviate fears about uncertain outcomes. Our research showed that people under-emphasise long-term historic performance trends and overemphasise recent problems in investment performance. The recent history of market disasters undermines any 'proof' of pensions always 'beating' inflation and suggests that anything can happen. This in their view is justified – the collapse of major financial institutions seemed improbable, for example, but it happened.

There's no easy solution to this issue. One way through suggested by our research is to adopt a longer-term communications strategy. People are more likely to grow to accept the inherent uncertainty of investment returns if we can help them not to overemphasise the improbable. From NEST's experience, one of the better received ways of doing this is to find ways to talk about how our investment strategy protects members' money while growing it. People want evidence that there's a plan for the bad times. This helps to implicitly deal with the notion of risk.

Case studies using life-stage based examples answering the question 'what will I get at the end?' helped people to get the ballpark indication for their life-stage group that they were looking for. They were useful for reducing uncertainty and were particularly welcomed by those who would be starting pension saving at a relatively older age.

For many, though, seeing what just the minimum contributions would get them was a disappointment. As we've seen earlier, many assumed that their workplace pension would be the main contributor to their retirement income. People generally didn't understand what other factors might contribute to their income in retirement – including, of course, the State Pension.

It's possible that this disappointment is one stage on a journey that will see them get more engaged with retirement planning. Providing a proper context for final income estimates is one way providers might be able to avoid this sense of disappointment among savers that could lead to them losing hope and stopping contributions.

Conclusions

To sum up, consumer awareness of automatic enrolment is high and among those enrolled so far it seems to have been broadly welcomed with lower than expected opt-out rates. However, our research suggests there are challenges to come – both when contribution rates rise and on helping consumers frame and plan for a retirement that will meet their aspirations.

So while we're off to a great start, we are only at the start of a much longer journey. There is much more we can all do to help ensure workplace pensions really do make a positive difference to the quality of people's later lives.

Automatic enrolment and employers

As we've seen, consumers have responded quite positively to automatic enrolment. There's a growing acceptance that workplace pensions are the norm and consumers will expect their employer to have the matter in hand. This places a lot of the responsibility for making the reforms work on employers. In this chapter we see how employers have managed in the first year of staging and consider the challenges that exist for the employers staging in 2014.

In last year's *NEST insight* we weren't able to say a lot about employers' actual experience of automatic enrolment as only a few of the largest employers had reached their staging date. Now, a year later, thousands of employers have reached their staging date and automatically enrolled millions of workers into a pension scheme. This means that we're now able to reflect on how automatic enrolment has landed from the knowledge we've built up working directly with employers who've used NEST alongside research conducted by ourselves, The Pensions Regulator (TPR), the Department for Work and Pensions (DWP) and others.

There's also been a great deal of public discussion this year about the significant increase in the volume of employers staging in 2014. Our research shows that these employers have a different profile from the very large employers that have staged so far and have different expectations of how they'll approach automatic enrolment.

One of the key differences coming up is the importance of the business support sector for these small and mid-sized employers. Unlike the larger employers that staged in 2012/13, employers staging in the next 12 months are far less likely to have staff dedicated to HR, pensions and payroll. Instead they'll be relying on business service providers who manage these functions for them to help them comply.

The reforms aren't only a pensions issue. Employers need to make changes to the way they pay and manage their staff, and some businesses will find these changes time-consuming and complicated unless they prepare carefully.

Finally, we look ahead to 2015 and beyond to consider what challenges and opportunities lie ahead as we go through the final part of staging. As with the previous years, the next wave of employers reaching their staging dates will have different needs and priorities from those that have gone before and there'll be another huge increase in numbers. Starting to think about how we can apply the lessons learned so far to these small and micro employers may make things easier in the years ahead.

Year one – the employer's view

As noted in the previous chapter, the overwhelming majority of workers enrolled so far haven't opted out, suggesting a successful first year for automatic enrolment from a policy perspective.

However, research with employers staging in the first year would suggest that they've put a lot of time and effort into ensuring successful implementation of their new duties and this will have helped the process run smoothly.

The DWP provides a detailed analysis of how the largest employers have approached complying with the reforms in its recently published research report looking at large employers' experience, *Automatic enrolment: qualitative research with large employers*. Its findings are very consistent with our own research and experience of working with large employers using NEST.

For these organisations, implementing automatic enrolment has involved considerable effort and resource. Although one person, usually someone with significant pensions experience such as a pensions manager or director, led the implementation of automatic enrolment, many employers also established an internal project team that involved people from different parts of the business. These included functions like:

- the pensions department
- human resources
- payroll
- information technology
- marketing and communications.

Employers have also turned to external advisors such as employee benefits consultants (EBCs) and legal advisers and have needed to work closely with their payroll and pension providers.

Most employers spent many months preparing for the reforms. A fifth of employers we surveyed had taken over 16 months to get ready and the DWP found that many said they'd taken longer to prepare than they originally expected.

Many of these employers emphasised that although they may have planned in advance and dedicated a significant amount of time to researching the reforms, they often didn't fully recognise how complex and time-consuming some of the tasks would be. In particular many found it difficult to build an understanding of the legalities of the new duties and how to translate these into action to make sure they were compliant. They also needed to put a lot of effort into making sure their payroll and IT systems could be used to help them identify and process the different types of workers.

> "Allow enough time to plan, communicate effectively with providers, evaluate the costs. Don't think it's as straightforward as it looks."

Employer with 1,000 to 5,000 workers

In both our own research and that undertaken by the DWP many employers emphasised that those yet to stage should not underestimate the amount of time needed to prepare. In our research 'plan early' was the most often cited key recommendation employers would give to others.

They also focused on:

- the importance of clear communications to their workforce
- the need to assess whether payroll systems would be capable of handling the changes needed
- ensuring that the information they hold about their workers is cleansed in preparation for automatic enrolment.

> "Apply a plan well in advance. Good communications with the workers. Make sure the systems and payroll are up to scratch."

Employer with over 5,000 workers

Case study
Kelly Services

Kelly Services is a recruitment firm whose workforce solutions span temporary staffing and permanent recruitment through to full-cycle managed service programmes. They employ over 1,400 eligible jobholders.

Their automatic enrolment project team was the company's financial director, the compensation and benefits adviser and the marketing communications department. Other areas of the business – including finance, payroll, credit control and accounts – joined the project when they were needed.

> **"Communications were always going to be very important to us"**

Financial director Katie Ivie said, 'Communications were always going to be very important to us. We knew we wanted to be compliant and to ensure a positive employee experience. Some workers weren't aware of the legislative changes – they didn't know they were going to be automatically enrolled nor that they had to opt out after enrolment.'

The HR team was responsible for communicating with the workforce. First and foremost they met their statutory requirements and then they tailored their communications approach for different sections of the workforce. They used factsheets on their intranet and website, held surgeries for workers to attend, and held training sessions with managers across the business who could then talk to their teams. Kelly Services also set up a dedicated email account to respond to any questions from workers about automatic enrolment. They then tracked the questions to see if there were any areas that the existing communications strategy needed to strengthen or address.

Ivie said, 'The strategy has been successful overall, we have used a number of communication strategies and workers are engaging and using these channels to ask questions and find out more about automatic enrolment.'

Nearly all the employers staging in the first 12 months of automatic enrolment already had pension provision in place for at least some of their workers. Considering how they could extend current provision to their whole workforce was a natural starting point for many. However for a variety of reasons significant numbers of employers have ultimately chosen to set up new pension provision for certain types of workers or for their entire workforce. For example, in the first 12 months over 1,000 employers chose to use NEST with others choosing to use other new entrants to the market.

> "Start as soon as you can, engage the rest of the company as quickly as you can to make sure the company realises that it's a company issue rather than just a pension change."
>
> Employer with over 5,000 workers

Regardless of whether they used their existing provider or not, many employers quickly came to recognise that preparing for automatic enrolment was not just a pension issue. As they came to grips with what they needed to do they realised there were significant implications for other parts of the business, in particular human resources and payroll.

They needed to involve their payroll department to ensure they could identify the age, earnings and contractual status of each worker so they could categorise them correctly and act when a worker's status might change. Many came to realise that the reforms presented a variety of new and complex data challenges that their existing systems and processes could not manage. In order to administer the new tasks required by automatic enrolment, many employers therefore had to adapt their existing systems or invest in new systems custom-built for automatic enrolment.

They also faced the challenge of letting their workers know what was happening, both in terms of the communications that they're required to send by the regulations and more general explanations about pensions and the new reforms. Most employers drew up communication plans months in advance of their staging date. They took time to share general background information with the entire workforce and then provided more tailored messages related to specific events or worker groups. The DWP found that ensuring that these communications were jargon-free and not too technical was a particular concern for many employers.

Case study
Capita Resourcing

Jerry Wheelan, payroll manger at Capita Resourcing, thinks the most important aspect of compliance for a payroll manager is to plan well ahead of your staging date and ensure that full end-to-end testing is carried out to include all possible scenarios.

> "Our payroll provider had to supply and create a new pension module specifically for automatic enrolment"

Before automatic enrolment the business had a standard recruitment payroll tool without an automatic enrolment module. They spoke to their payroll provider and established that they had to make some changes. Jerry says, 'Our payroll provider had to supply and create a new pension module specifically for automatic enrolment which required full end-to-end testing. Making sure that the payroll system was functioning properly was really important to us. A number of our workers complete weekly, daily and hourly timesheets and are paid 12 times per annum on a four/five/four weekly basis.'

Capita Resourcing employed an extra member of the payroll team for four months to help on the project. Its biggest concerns were not knowing how many workers would opt in or out and whether the system would kick in and start the pension deduction correctly and on the due date.

Overall, the project was a resounding success. Capita Resourcing experienced an opt-out rate of 20 per cent, which was much lower than expected, and a small number of workers elected to opt in to the scheme as soon as it became available. Whelan advises that for successful automatic enrolment implementation, employers should carry out full end-to-end testing including payments and accounts reconciliations so that there are no process and practice surprises.

When interviewed by the DWP many employers reported that they'd been surprised by low opt-out rates. They cited the power of the default effect and the low initial contribution levels among the reasons that their workers decided to stay enrolled. A significant contributory factor mentioned by many, particularly larger employers, was their own internal communications campaigns.

The importance that employers placed on successful communication campaigns is certainly something that chimes with our own research. In NEST's *Golden Rules of communication* we emphasised the importance of talking clearly and concisely and ensuring workers understood their entitlements and felt in control of what was happening. NEST has also found that many of the employers using us have particularly welcomed the effort we've put into developing clear and straightforward communications aimed at their workers.

Once employers understood how their systems and processes might need to change they often engaged their IT departments and communications and marketing functions to help them refine their systems and develop the relevant communication materials. Not only did many of these large businesses dedicate significant internal resource, they also engaged external support from a variety of organisations such as employee benefits consultants, pension providers, legal advisers and – if they used them – payroll providers. The level of involvement might vary but many expected and received significant support.

Costs have obviously been of concern for employers. Some employers have sought to keep costs down by using postponement or a waiting period. The DWP found around half of employers they interviewed had used postponement. It's also our experience that many employers using NEST have so far chosen to use a waiting period. Many used it as a way to minimise contribution costs. Where employers had a large number of casual or short-term workers it was also seen as way of avoiding having to enrol these workers at all.

Cost was not the only motivation for using postponement. Some employers wanted more time to prepare. Others used it to avoid busy times of the year for their business or clashes with key dates in their financial year. Some others postponed to help them align automatic enrolment with their existing payroll periods.

DOs and DON'Ts

Getting ready for automatic enrolment

Employer DOs

The employers that NEST has worked with over the first rounds of staging have shared their own top tips about getting ready for automatic enrolment.

- ✔ **Plan early.** Don't underestimate how long it will take. Talk to your pension and payroll providers as soon as possible.
- ✔ **Assess your workforce** to understand how your workers are affected.
- ✔ **Communicate** with staff clearly and early. Engage and involve them with their new rights. Have a communication plan and involve all relevant departments of your business.
- ✔ **Examine systems**, particularly payroll. Make sure they're ready and capable.
- ✔ **Get help** if you need it from experts and external advisors.

Employer DON'Ts

As well as sharing the experience on what to do, NEST employers have highlighted what not to do. Staged employers warn, 'Don't fall for these misconceptions.'

- ✘ 'Once we've chosen the pension provider everything will be done for us.'
- ✘ 'There'll be a lot of work leading up to the deadline but then our work is done.'
- ✘ 'We have to offer a pension to all staff.'
- ✘ 'It's like the stakeholder pensions. Most people will opt out.'
- ✘ 'Our payroll provider will tell us what we need to do with regard to payroll.'

Who comes next?

The second 12 months of automatic enrolment brings a significant increase in the number of employers reaching their staging date. From just a few thousand in 2012/13, the year 2014 will see upwards of 30,000 employers beginning to comply with their new duties. The majority are concentrated in a three-month period between April and July 2014. In these months around three quarters of all the employers due to stage in 2014 will reach their staging date.

In addition to this rapid increase in numbers, there are also significant differences in the sort of pension provision currently offered by these employers compared to those that have staged so far. Almost all employers in the first year of staging already offered a pension scheme to at least some of their workers. Many of the largest firms would have had individuals or teams specifically dedicated to managing their pension provision.

However among employers staging in the second 12 months, around a third are likely to either not offer any pension scheme or just have 'shell provision' in place – typically a stakeholder scheme that's been set up in the past but that has no workers enrolled in it. These firms are unlikely to have anyone whose primary responsibility is dealing with the firm's pension provision. Instead, dealing with the reforms will fall to someone such as the finance or HR director as part of a broader remit.

Not only are employers staging in 2014 likely to have lower rates of pension provision they're also likely to be less knowledgeable about pensions in general. In previous research conducted by NEST only 52 per cent of employers with between 50 and 499 workers said that they had a good understanding of the pensions market. This compared with 71 per cent of employers with 500 to 10,000 workers, and 96 per cent of employers with more than 10,000 workers.

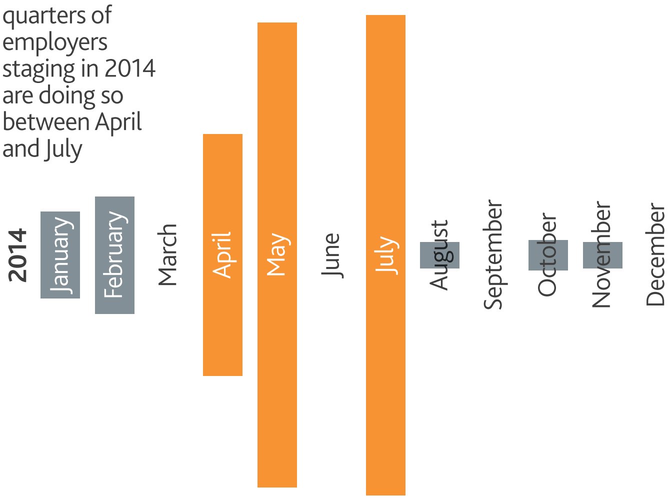
Perhaps linked to these lower levels of understanding, 32 per cent of employers with 50 to 499 workers were likely to lack confidence in making decisions about pensions compared with 19 per cent of employers with 500 to 10,000 workers and only 2 per cent of employers with more than 10,000 workers.

The 2014 challenge

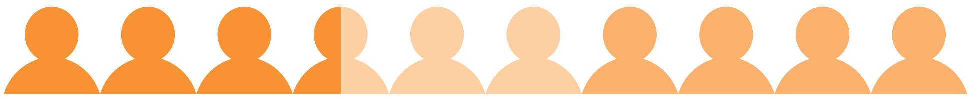
The changing profile of employers

About eight times as many private sector employers staging in 2014 compared to 2012

About three quarters of employers staging in 2014 are doing so between April and July

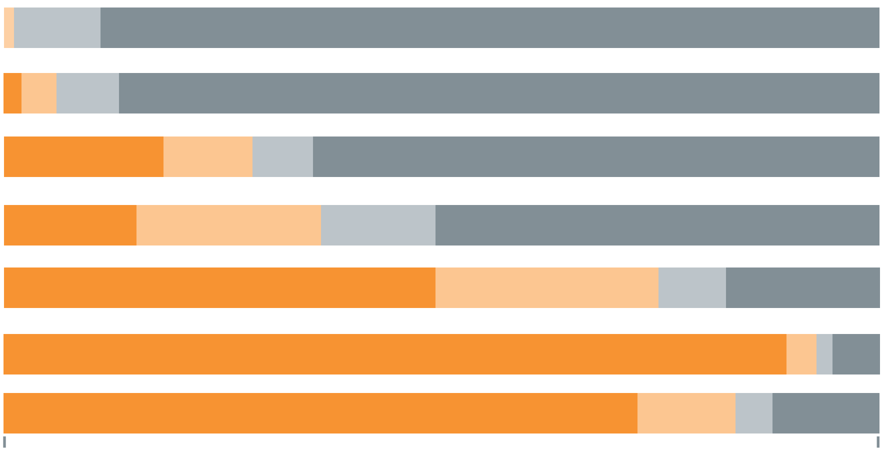


Many of the 10 million workers affected are yet to be enrolled



Employers staging in 2014 have less experience and knowledge of pensions

Workplace pension provision by number of workers



I have a good knowledge of pensions

33% 1-49 workers
52% 50-499 workers
75% 500 or more workers

I don't feel confident making pension decisions

54% 1-49 workers
33% 50-499 workers
21% 500 or more workers

Automatic enrolment: Employer forecast staging profile, January 2014 (TPR)

Annual Survey of Hours and Earnings, 2012 (ONS)

Employer pension provision survey, 2011 (DWP)

Employer decision-making survey, 2009 (PADA)

How will 2014 employers approach complying with the reforms?

Over the past year many parts of the pensions industry, NEST included, have been discussing the significant challenges posed by the number of employers due to stage in 2014 and in particular the period between April and July. Commentators have emphasised that employers staging next year shouldn't underestimate how long it will take to prepare – as noted, this is the key advice being offered by employers who staged in the first year.

To understand whether these messages are getting through we've continued with our employer readiness surveys and in-depth interviews with a range of employers likely to stage in the first half of 2014. We've also reviewed published research from TPR and others. Our analysis of the research suggests that the 'plan early' messages coming from TPR and others aren't hitting home with many mid-sized employers.

In the first half of 2013 we interviewed a number of employers likely to stage in the first half of 2014 to explore in detail how they expected to prepare for automatic enrolment. For at least some of the largest employers interviewed their staging date was no more than 12 months away and at most 15 months.

Our findings were similar to those of TPR's tracking research. Awareness of the key components of the reforms was generally high among those interviewed. Most were also aware of their approximate staging date. In our employer readiness research we've also seen confidence in knowing their staging date increase significantly among employers staging after October 2013. 93 per cent of employers with 100 to 999 workers were very confident they knew their staging date compared to 68 per cent 12 months ago. Among employers with 50 to 99 workers it has increased from 30 per cent to 68 per cent.

Although general awareness of the reforms and staging dates was high, when we explored whether employers had started to prepare it transpired that hardly any had started to think in detail about the reforms and what they needed to do. Many had other issues that were seen as a higher priority, meaning that automatic enrolment was not 'top of mind' and was seen as something that would be dealt with at a later date.

Most of the employers interviewed were looking to put in place a low-cost compliant solution and no more. If they already offered a pension scheme with a reasonable proportion of their workforce as members, they hoped to be able to simply use this existing scheme for automatic enrolment. Few employers considered the possibility that providers might turn down their business either because they approach the provider too late or were considered financially unattractive. There were some common misconceptions among the employers interviewed, such as 'once we've chosen the pension provider everything will be done for us', 'there'll be a lot of work leading up to the deadline but then our work is done' and 'it's like stakeholder pensions, most people will opt out'.

Case study
Travelodge

Travelodge started preparations at the beginning of last year, holding monthly meetings with key staff and the stakeholders from their pension schemes and payroll software provider. Bringing the stakeholders together regularly enabled them to foresee practical issues that needed to be addressed.

> “Bringing the stakeholders together regularly enabled them to foresee practical issues that needed to be addressed”

At the end of 2012 their existing pension provider - who ran the stakeholder pension plan for their monthly-salaried workers - told them that they wouldn’t be able to provide automatic enrolment pensions for their four-weekly and monthly salaried staff.

Travelodge sought financial advice and at the beginning of 2013 appointed Scottish Widows to provide a scheme for staff on their monthly payroll and NEST to provide a scheme for staff paid every four weeks.

There were complications such as having to change pay dates for monthly workers from the first of every month to the last working day of the month. And Travelodge had to invest in an enhanced package from their payroll provider as well.

Since they began automatically enrolling staff they’ve had an opt-out rate of 10 per cent for monthly staff and 9 per cent for four-weekly staff. The reaction has been very positive and they’ve only had a few enquiries about people being surprised by the deductions on their payslip.

Employers staging in 2014 saw the HR and finance functions as playing a key role in making sure their organisation complied with the reforms. In smaller organisations this could be one person straddling both functions. There was a general expectation that only a few people would be involved, with perhaps occasional input from the board or managing director at key stages. Preparation would need to happen alongside existing workloads and unlike the experience of larger firms they didn't expect to establish cross-business project teams or dedicate significant budgets to preparing.

Although we found that employers hadn't started to prepare, results from TPR's latest tracking survey with employers found that only one in 10 employers staging in 2014 planned to leave it as late as possible to comply. There was a significant fall in the proportion expecting the process to only take up to three months – down to 28 per cent from 52 per cent.

Taken at face value this would perhaps suggest that many employers will begin preparing well in advance of their staging date, particularly given the various messages in the media warning employers to give themselves plenty of time to prepare. However, the employers we interviewed found it difficult to map out the actual preparation process they would follow because they had limited knowledge of the details of the reforms. The majority just had a vague schedule in mind. Most planned to start preparing at least four months in advance of their staging date with many expecting the whole process to take six to nine months. This wasn't based on anything concrete. It was just what felt like the right amount of time based on their experience of implementing other initiatives.

This sort of timeline was considered reasonable by employers and even seen to include contingency if needed. This possibly explains why TPR research has found few employers saying they plan to leave it as late as possible.

This discontinuity of preparation time is also reflected in our latest wave of employer readiness research carried out in summer 2013. We found that only 23 per cent of employers staging between February and July 2014 had both confirmed the provider they'd use and done everything else they needed to do in order to be ready to comply.

Of course since our and TPR's research was completed, preparations among employers staging in the early months of 2014 will hopefully have moved on. It does suggest, however, that many employers are leaving a lot less time to prepare than employers who staged in the first 12 months.

We asked employers what might prompt them to start preparing. They suggested a number of different triggers:

- The completion of another project. For example many of those interviewed were focused on RTI at the time of the interview.
- The start of a new calendar year was seen by some as a good starting point.
- Once they return from summer or other holidays.
- The start of their new financial year.
- The need to consider the cost impact. For example, if an employer was tendering for a long-term contract that would need to build in the cost of contributions.

Many employers felt that their journey to compliance would be relatively straightforward, although their knowledge was limited. In TPR's latest research 62 per cent of medium-sized employers thought it would be easy to comply. In our research we found that employers saw their key decision as being which provider they'd use. They didn't necessarily recognise that complying with the reforms wasn't just a pensions issue.

In our research we found that many employers had high expectations about the level of support and guidance they'd receive once they made their choice of provider. This contributed to employers underestimating the amount of effort they might need to expend to set up a scheme and prepare their business for automatic enrolment.

Only when employers were asked about some of the specific tasks they'd need to perform did some of them begin to realise that complying with the reforms could be more complicated than they initially imagined. Most recognised the need to assess their workforce but as they began to think about this in detail – and in particular the need for ongoing worker assessment – some employers began to realise it could be more difficult than they had first thought. The ongoing nature of worker assessment also led employers to recognise the administrative challenges they faced were not just in the run up to their staging date.

Employers with a more complicated and less stable workforce in particular came to realise the potential administrative challenges they faced. The research indicated that, as in the first 12 months of automatic enrolment, many employers staging in 2014 would face challenges due to one or more of:

- varying payroll cycles
- high staff turnover
- the need to segregate data
- zero-hour contracts and staff on the cusp of eligibility.

Many employers thought that their payroll provider would be giving them a lot of help to deal with these challenges either by offering advice or updating their software packages to automate the process. While the enrolment process was a bit of an unknown, most employers imagined it would be relatively straightforward.

Employers didn't think they'd have any difficulties processing payments in the timelines they established when they set up their scheme. Our experience with employers who staged in the first 12 months however has shown that many employers underestimate the amount of time needed. As a consequence many have set up their scheme with payment due dates that they've later discovered they can't manage. This could lead to consistent late payments and the involvement of the regulator for employers that don't think these issues through beforehand.

Few employers envisaged using a waiting period. Although they could see the benefit they tended to show an attitude of 'if we have to do this anyway, we might as well not delay'. However, few were aware that they could postpone automatically enrolling their workers before it was brought up in the interview. As we've already noted, many employers underestimated some of the tasks they needed to complete to be ready to comply with the new duties, and so we might see more appetite for waiting periods as their staging dates approach.

Our employer readiness research carried out later in 2013 suggests that many employers remain unaware of waiting periods. Only 53 per cent of employers staging between February and July 2014 were aware that they could postpone enrolments for up to three months and only 12 per cent expected to use a waiting period. However, awareness among employers staging prior to February was much greater, with around half expecting to use a waiting period.

As we noted earlier, many employers staging in the first 12 months have chosen to use a waiting period. Clearly this would suggest the potential that, as employers staging in the peak months of 2014 begin to prepare in earnest, many more will ultimately decide to use a waiting period.

Although most employers saw the enrolment process as relatively straightforward, some employers were slightly more concerned about managing the opt-out process. This was one of the things that made them think that they would need to spend a lot of time telling their workers what was happening and how to opt out so as to avoid late opt-outs from workers.

More generally in terms of communications, most employers felt they would need to hold staff meetings and back this up with other communications via emails, newsletters and tailored letters. However they hadn't fully thought through the details either in terms of the actual content or the timing of any communication activity. Most said they'd welcome any template letters and communication materials that they could use.

Employers were keen to communicate clearly to their workers about automatic enrolment. This wasn't necessarily because they expected large numbers of workers to opt out. They also wanted to avoid any additional administrative burden fielding queries as a result of workers not understanding what was happening.

Employer expectations of how many workers would opt out varied significantly depending on the make-up of their workforce. Those with large numbers of lower-paid younger and older staff expected higher opt-out rates. Evidence from other research suggests that employers in general may be beginning to expect lower opt-out rates than previously. Research published by the Institute of Directors in 2013 shows that their members' expectations of opt-out rates more than halved to 15 per cent in 2013 from 36 per cent in a similar survey in 2011.

The fall in the number of employers expecting high rates of opt-out may reflect that those surveyed had taken note of low opt-out rates so far. It could also be that automatic enrolment is beginning to create a 'social norm' where saving in a company pension is considered to be the normal thing to do regardless of where you work. Support for automatic enrolment also remains pretty high, with TPR finding that eight out of 10 large and mid-sized employers agree that 'in principle automatic enrolment is good for workers'.

Case study

Gallagher Employee Benefits

Gallagher Employee Benefits has been looking at the impact of automatic enrolment over the past five years and actively advising clients on automatic enrolment for the last three years. Nick McMenemy, head of consulting at Gallagher Employee Benefits, comments on the automatic enrolment services that Gallagher offers.

'As part of Gallagher Employee Benefits' automatic enrolment service we will project manage a client's automatic enrolment project, design and deliver employee communications, liaise with providers and help evaluate the technology alternatives. Our aim is to provide our clients with a very comprehensive support package so they can get on with their day-to-day jobs.'

As part of its automatic enrolment consultancy offering, Gallagher Employee Benefits typically groups its consultancy services into four stages. The first stage is discovery. 'We work with the client to understand what they're looking to achieve with automatic enrolment and their pension scheme in general – liaising with them and their existing providers, as well as their workforce.'

The second stage is design. 'This is where we look at how the project should run, how contributions are structured, who the employer should partner with and how to communicate the changes to workers. The design stage also looks at ongoing governance.'

Stage three is implementation. 'As part of implementation we attend regular meetings with key stakeholders to get them across the line with their staging date.'

Stage four is ongoing governance. 'Gallagher Employee Benefits governance capabilities are proven and very strong – we believe good governance is a vital component of pensions consulting. Our tiered approach means clients can have as much or as little assistance from us as they want.'

“We've successfully helped a number of clients stage already, including some high-profile, household names”

He added, 'We've successfully helped a number of clients stage already, including some high-profile, household names. It was important for their reputation that the projects were delivered compliantly, professionally and on time.'

Conversely, it's worth pointing out that the Institute of Directors survey also highlighted a degree of negativity towards pensions in general among its members, many of whom work for mid-sized employers. Our own previous research with employers also indicates that as employer size decreases a greater proportion question the value of pensions. Only 18 per cent of employers with 500 or more workers agreed with the statement 'there are better ways of saving for retirement than pensions' compared with 38 per cent of employers with between 50 and 499 workers and 62 per cent of employers with fewer than 50 workers.

This presents a slightly confusing picture of employers staging in 2014 being broadly supportive of the reforms but less positive about the value of pensions than larger employers. These employers might find themselves wrong-footed by the relative enthusiasm with which the reforms have been greeted by workers and their expectations of being in a workplace pension 'being normal'.

And it might also mean that even though employers say they want to communicate clearly about the reforms to their workers at least some may be disinclined to put the same amount of effort into promoting automatic enrolment as those that staged in the first 12 months. This might particularly be the case given that these employers may also have less time and resources available to them to communicate with their workforce than the largest employers.

This would be a shame because it's an opportunity for employers to build positive relations with their workers. Given the proportion of consumers that have welcomed the reforms it's a chance for employers to be on the same side as their workers and to highlight the benefit of the employer contributions.

The important role for intermediaries

As we've seen in the previous section there are some key differences between the employers staging in 2014 and those that staged in 2012/13. The employers in the next round haven't necessarily thought in detail about the reforms. They plan to dedicate less time to it and will have fewer resources available. They're less knowledgeable about pensions than the larger employers that have already staged and are expecting to get a lot of help getting their organisation ready. Our own research and research by the DWP shows that they're likely to look for support from:

- their pension provider
- whoever provides their payroll solution
- independent financial advisers (IFAs).

With the large numbers staging in 2014 there will be limits to how much personalised support pension providers will be able to offer. This means that there are significant opportunities for business service providers to develop services that can help these employers comply with the reforms.

Research with employers consistently shows that nine out of 10 employers with more than 50 workers plan to seek advice on their choice of scheme. 74 per cent of these employers also say they've sought or plan to seek additional support over and above choosing their provider. Admittedly only around half of those surveyed who say they'd seek support said that they're willing to pay for it but this may still equate to several thousand employers staging in each of the peak months who are seeking and willing to pay for support.

Case study

Fourth, payroll provider

Paul Watson, operations success manager for Fourth, sees payroll as central to the automatic enrolment process.

'With the amount of calculations that need to take place when assessing the workforce it makes sense for it to sit within the payroll solution. The transferring of data out through middleware and then trying to get it back in order to hit the tight deadlines around BACS processing leaves me, and quite a few of our customers, uncomfortable.

> "Basic housekeeping tasks are also essential"

'Basic housekeeping tasks are also essential such as checking job titles, checking contracts, ensuring you have a "clean payroll process" and ensuring that payroll is as informed and engaged as much as they can be, are all vital elements.

'One example of things taking longer is we have known it to take six months, if not longer, to gather personal email addresses in order for the module to send the required documentation'.

Paul suggests that employers must give themselves at least 12 months, and at best 18 months, to prepare for automatic enrolment.

In last year's *NEST insight* report we highlighted that the key concern for employers of all sizes was the potential increased burden of ongoing administration. Coupled with the likely limited internal resources of many employers staging in 2014, this suggests that a significant number may come to recognise the value of additional paid-for support and administration services offered by various third parties.

The latest intermediary tracking research published by TPR indicates that almost all employee benefits consultants (EBCs), IFAs, payroll administrators and accountants expect to have some involvement in automatic enrolment. The majority expect to offer services to potential as well as existing clients. According to TPR's research 78 per cent of both IFAs and EBCs said they expect to either act on behalf of their clients or provide technical advice to them. A lower proportion – around two-fifths to a half – of other business service providers such as payroll administrators, accountants and bookkeepers said the same thing.

> "Project management. Taking them through the stages they need to go through. More hands-on approach."
>
> Specialist IFA

Our experience of financial advisers, payroll administrators and accountants shows that they're starting to recognise the opportunities that automatic enrolment might offer them to develop new services for their clients. We're seeing increasing numbers signing up to our webinars, attending NEST Live events and planning to offer administration services by using NEST's delegated access facility.

A key reason for this increased engagement is of course that many of these third parties may well have a significant number of clients likely to stage in the second year and are conscious they may turn to them for support and advice. There's also an acknowledgement that due to the large numbers of employers staging in the peak months of 2014 pension providers may well not be able to offer the level of support that individual employers may be looking for. Intermediaries also recognise that the reforms present significant data, systems and administration challenges beyond the choice of a pension scheme meaning they may be able to expand the services they offer to clients.

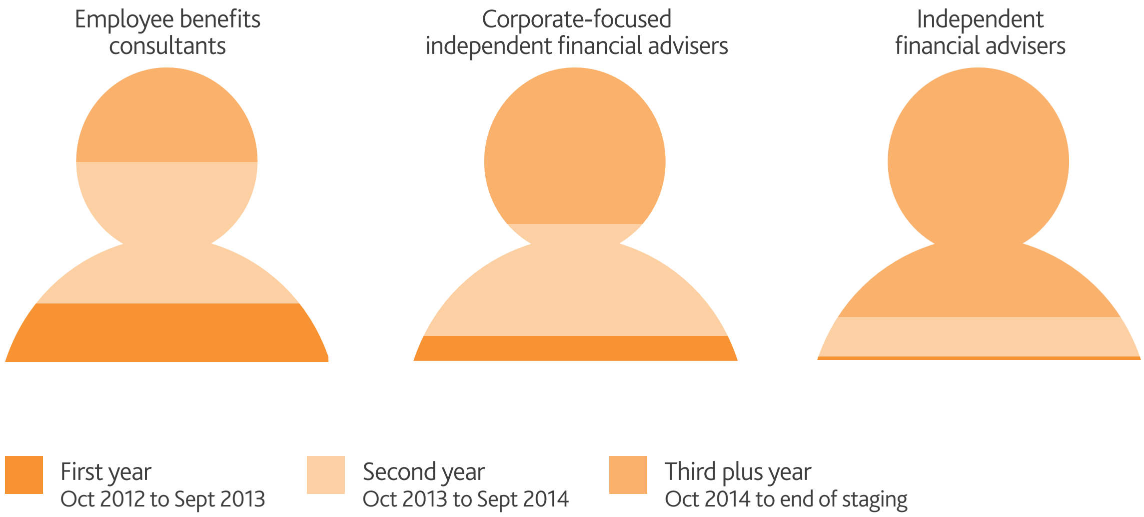
> "Advice on implementation of the reforms and helping with ongoing administration."
>
> Mainstream IFA

In our research with EBCs and IFAs we've found that almost half of EBCs' clients stage in the second 12 months and, for a subset of more corporate-focused IFAs, over a third of their clients stage in the second 12 months. Even among IFAs whose typical client will tend to have fewer than 50 workers, around a tenth of their clients may stage in 2014. Perhaps unsurprisingly we have found that those with a significant proportion of their clients staging in 2014 are particularly engaged in thinking about offering new services.

Research

IFAs and EBCs

Proportion of corporate clients by staging year



All the EBCs we interviewed and 82 per cent of the IFAs with a significant proportion of their clients staging in 2014 said that they had identified new service opportunities. Even among other IFAs whose typical client wouldn't stage until 2015 or later, just over half saw new opportunities.

Almost all the opportunities identified by these advisers centred on what might broadly be termed 'compliance services'. As can be seen from the quotes on the previous page they were not only looking to offer advice on the choice of provider. Many were also considering offering support all the way through the process of complying with the reforms and beyond by offering to not only ensure an employer is compliant but administer their automatic enrolment solution on an ongoing basis.

Payroll providers

Our research with employers and the experience of employers staging in the first year would suggest that payroll providers have a particularly significant role to play. Employers expect payroll providers to bring out solutions that will help them with worker assessment. According to our employer readiness research, around two-thirds of those staging in the first half of 2014 use specialist paid-for payroll software. These employers will be looking for software updates to help them with automatic enrolment. The majority of the remaining employers outsource their payroll administration to payroll providers or other companies and they may be similarly keen to outsource the ongoing administration of automatic enrolment.

So what does all this mean for 2014?

The research and analysis summarised in this chapter would suggest a number of different issues and opportunities for automatic enrolment in 2014.

1. The power of now

There clearly seems to be a risk that employers staging in 2014 are underestimating the amount of effort and time they should expend in preparing to comply and are making assumptions about what they need to do. They may also be mistaken in their belief that their chosen provider will accept their business if they haven't yet talked to them.

Just telling these employers that it takes six to 18 months to prepare doesn't necessarily work. An 'act now' message that tries to link action to specific events, such as the financial year, the New Year or the receipt of a letter from TPR is likely to be more powerful in getting these employers to begin their preparations.

2. Breakdown the tasks – it's not just about pensions

Employers staging in the first year came to recognise that preparing for automatic enrolment was not merely, or indeed primarily, a pensions issue. Employers staging in 2014 don't necessarily fully recognise that there's much more to getting ready than choosing a pension provider.

To help employers understand everything they'll need to do it's helpful to break it all down into easily digestible elements. This may help employers feel less daunted about the task ahead and make the steps easier to understand. It may also help them recognise which elements of the process could be more time consuming or problematic than they might have imagined.

3. Frame the challenge

Employers' previous experience has the potential to create powerful points of reference in terms of their expectations. We found many employers yet to stage tended to look back to their past experience of setting up or running a pension scheme. Unfortunately in some ways this is not necessarily the best point of reference as it contributes to them underestimating the new tasks, such as the ongoing assessment of their workforce.

It may help these employers understand what compliance entails if different points of reference can be found. Referring to previous big regulatory changes like the provision of real-time information for PAYE will help them understand how the new duties have wide ranging business process implications.

4. Clear communication benefits all

Although opt-out rates are likely to continue to be heavily influenced by the powerful default effect of automatic enrolment, we shouldn't ignore the effect of the substantial internal communication programmes that many employers in the first 12 months carried out. These may well have helped reassure workers about being automatically enrolled and be leading to a 'normalisation' of being in a workplace pension.

Smaller employers may not have the same amount of time and resources that larger employers have to develop their internal communications to the same degree, but effective communication with workers and other relevant parts of the business can save time and administration by answering the questions and concerns their workers may have. Template communication materials that employers can use with minimum adaption are likely to be welcomed and useful.

5. An opportunity for intermediaries

Many of the largest employers say they found complying with the reforms difficult and large numbers had to make changes to their payroll systems and processes. Employers staging next year have a lot less time and staff to dedicate to setting up a scheme and ongoing administration. Many are still likely to have some if not all of the workforce and payroll complexities faced by the largest employers. Generally speaking, they're also less knowledgeable and confident about pensions and the reforms.

This suggests that there's a significant opportunity for different business service providers to offer compliance and ongoing administration services to these employers in 2014.

2015 and beyond

Understandably everyone's attention is currently focused on the peak staging months of 2014. It's also important not to lose sight of the fact that in 2015 the focus will shift to small and micro employers. These will bring their own set of problems and challenges.

Small and micro employers dominate the employer landscape, making up 97 per cent of all employers. The sheer scale of the numbers of small and micro employers having to comply with automatic enrolment is illustrated by the fact that from 2016 onwards the average number of employers staging in each individual month is likely to be much higher than the combined total of employers staging in the whole of 2014. In each individual staging month potentially over 80 per cent of the employers will have fewer than 10 workers and indeed approximately two-thirds may be described as micro employers (employing between one and four workers).

In addition, these employers will have much less pensions knowledge and experience than those staging in earlier years. Pension provision is almost non-existent among micro employers with nine out of 10 not currently offering a pension at all. Among organisations with more than 10 workers pension provision is higher but around a third have what might be described as shell provision, that is a scheme with no active members - typically a stakeholder scheme set up at some stage in the past.

Small and micro employers are also unlikely to have any staff dedicated to the particular roles of HR, payroll or finance that might be able to take care of automatic enrolment. For small and particularly micro employers the person responsible will often have a less clearly defined job role and may well be the owner of the business.

Our research into small and micro employers in previous years revealed that workers in smaller businesses often feel that they have a huge number of different roles to play most of which get in the way of their main business. This struggle to cope with the multiple hats they have to wear means that many may initially feel that the new duties are just another unwelcome distraction from their core business. It's perhaps not surprising therefore that in previous research these employers are the most likely to say they'd go for the easiest option to comply – 69 per cent told us they'd be doing the minimum in our 2009 employer decision-making survey.

In addition to this desire for a straightforward solution many of these employers have a low level of knowledge of the pensions market. In previous research we've found that around half of small and micro employers don't feel confident making decisions about pensions and felt daunted at the prospect of setting up a pension scheme.

Not surprisingly many of these employers haven't built a detailed understanding of the reforms yet. For example TPR's latest tracking research suggests that although 61 per cent of micro employers were aware of the changes in pensions law only 35 per cent understand the key elements of the reforms. TPR also found that 41 per cent of small employers and 52 per cent of micro employers are 'likely to leave it as late as possible before thinking about how to comply'. This is a far greater proportion than their larger counterparts where fewer than 10 per cent thought this would be the case. Not only are a greater proportion expecting to leave it to the last minute to comply but TPR's research suggests significantly more, around a third, don't currently plan to seek advice.

While the challenges for medium to large firms are about more than pensions and more likely to be about business processes, small and micro employers are likely to be very different. On the one hand the challenges faced by employers so far in terms of complicated payroll and changing large embedded business processes are less acute. On the other the general lack of experience, knowledge and confidence with pensions in this cohort could make it harder for them to put compliant schemes in place. So for them automatic enrolment may be just about pensions and we may all need to think differently about how best to support this next group of employers as they come on board.

What does good look like in 2014?

Association of British Insurers

There is universal agreement that automatic enrolment has started extremely well over the last fifteen months, with the latest figures from The Pensions Regulator showing that 2.6 million people have now been automatically enrolled and less than one in 10 have opted out.

Meanwhile, the industry continues its work to ensure that people are enrolled into transparent, value-for-money workplace schemes, with pension charges for newly set up automatic enrolment schemes at their lowest level ever at 0.52 per cent annual management charge. The industry has also committed to undertake an audit of all existing workplace pension schemes set up before 2001 and those set up after 2001 with charges above 1 per cent to make sure that all savers in workplace pension schemes can have confidence that they are in a value-for-money scheme. And in two months' time, our *Code of Conduct on Retirement Choices* will have been in operation for one year, ensuring retirees receive clear information from their pension provider about their retirement choices and the critical importance of shopping around.

It is important that we maintain this positive momentum in the lead up to the crucial 'twin peaks' period which will see in excess of 22,000 employers stage between April and July this year. We can't afford to make changes that would require employers and providers to revisit all the preparatory work they have already done for staging and have urged the government, if they proceed with plans for a charge cap, not to implement this before April 2015.

But we must not lose sight of the broader picture. People beginning their savings journey today through automatic enrolment will have different needs at retirement to those today. This is why we have launched the first comprehensive review of the products, information and advice available to people as they reach retirement. With an ageing population and shifting work patterns, this review is asking whether the current process for retirement is fit for the future and what possible changes could be made to ensure people achieve a good retirement income with the savings and assets they have available. We will publish our report in the second quarter of this year and encourage everyone with an interest in pensions to contribute to the review at **abi.org.uk/Insurance-and-savings/Topics-and-issues/A-new-retirement**

Yvonne Braun, head of savings, retirement and social care

Chartered Institute of Payroll Professionals

The CIPP has been impressed by the way in which employers and payroll software providers have embraced automatic enrolment in 2013. 2013 also saw the Minister of State for Pensions, Steve Webb demonstrating that he has listened to employers, payroll software providers and representative bodies to help simplify some of the very complex rules. However where will we be in 2014?

The CIPP still has major concerns for the smaller employer, in particular those who are due to stage between May and July 2014. It is critical that businesses understand their obligations to ensure they don't fall foul of the legislation. No one knows what the capacity capability of the pensions industry will be and we hope businesses and employers have seen the adverts and talked to their pension providers or financial advisors to ensure they are ready.

A lot of middleware products have come on to the market and employers need to weigh up the costs versus administration. Different products will be required depending on what the employer has in place now, or might need in the future to meet their obligations. One point to bear in mind is that if 30,000 employers all go to their pensions providers, middleware or payroll software provider in the month before they are due to stage they will likely not meet their staging date! The CIPP would urge all employers due to stage next year to plan now - don't be left behind.

Karen Thomson MSc FCIPP, associate director of policy, research and strategic visibility

CBI

2014 will be an important year for the pensions industry. The current Pensions Bill should receive Royal Assent, embedding The Pension Regulator's new statutory objective. But 2014 will also be a key year for automatic enrolment. So far, a year into the five-year staging programme, roll-out has been a success. With 30,000 employers staging between April and July 2014 alone, it is vital that the government, pensions industry and business work together to get automatic enrolment right. Crucial to this will be:

- a stable and affordable regulatory framework for defined contribution schemes
- clear, accessible support and advice for employers
- material improvements in employee engagement and responsibility on preparing for retirement
- employers preparing early for staging.

Katie Dash, policy adviser, employment and skills

EEF, the manufacturers' organisation

The majority of EEF members have a staging date in 2014. Their focus has been and will be on meeting their automatic enrolment obligations and then embedding their continuing duties as business as usual. The reality of automatic enrolment is that although over 70 per cent of EEF members have an existing workplace pension scheme, this has not exempted them from the administrative and organisational changes needed to comply with the new law. Manufacturers will end 2014 with some relief that the introduction of automatic enrolment is over and question whether the government did enough to smooth out the wrinkles which add cost and burden to business.

For those manufacturers who have already passed their staging date, 2014 will be a time to scan the horizon and look to see what workplace pensions will look like in the future. Quality, governance and outcomes are the buzzwords coming from government. While manufacturers have demonstrated a long-standing commitment to supporting workplace pensions, they will want to see any future reform at a pace which they and their workforces can absorb, and not a race to implement change.

Tim Thomas, head of employment policy

Federation of Small Businesses

With most of our members not scheduled to reach their staging dates until after 2015, there is still time to get automatic enrolment right for small firms. In 2014, we would like to see the government respond directly to employer concerns. In particular, it should build on recent simplification announcements (such as the welcome decision to extend the joining window to six weeks) by making sure that the administrative burden is kept to a minimum and that maximum flexibility is given to small firms to help them comply with their duties.

One area that will be key to the operational success or otherwise of automatic enrolment is the partnership with the payroll sector. Software providers must ensure their products are fully functional with automatic enrolment as soon as possible to prevent problems later on. In addition the government must work closely with The Pensions Regulator and other key stakeholders to deliver guidance for small firms in a clear, simple and practical format. This must include additional guidance for employers on choosing a pension scheme, so that they can make an informed decision that is in the best interests of their staff.

Mike Cherry, national policy chairman

Forum of Private Business

For the first time, employers have a statutory duty to provide and contribute towards a pension scheme for all employees. This is a big step for small businesses but a necessary one. The good news is that with bigger businesses going first, some of the stumbling blocks have been identified and resolved, making the transition for smaller businesses smoother. However, it is important that businesses without a dedicated HR function are supported in complying with the new rules.

Alexander Jackman, head of policy

Institute of Directors

From our point of view, 'good' looks like we've not seen providers 'fall over' under the weight of workers being automatically enrolled in 2014, and we have seen little evidence of employers struggling to comply with the new duties. 'Good' also looks like continuing low opt-out rates as we start to see smaller employers stage in, and low requirements for regulatory intervention for employer non-compliance. 'Good' looks like more people saving more for later.

Malcolm Small, senior adviser – pension policy

National Association of Pension Funds

The first year of automatic enrolment has been a big success for employers, pension schemes and employees. This summer the National Association of Pension Funds (NAPF) conducted research with employers who have begun automatic enrolment and the employees it has affected, to see what is working best and where the challenges lie. We found that employers have taken the opportunity to breathe new life into their pension arrangements and employees have been overwhelmingly supportive, with opt-out rates much lower than we expected. Our report *Automatic Enrolment: One Year On* brings those findings together and uses them to provide practical guidance for employers at the start of their journey.

The NAPF has supported automatic enrolment from the beginning and we are pleased to see it get off to such a successful start. But 2014 is going to be much harder than 2013 – with smaller firms having less resource and pensions expertise to dedicate to the change. Even large employers have struggled with the complexity of the automatic enrolment rules and have emphasised the need for long periods of preparation.

The NAPF has been doing its bit to help employers. We launched an automatic enrolment website in February 2013 to help guide employers through the complicated rules and regulations. Our work on automatic enrolment, together with our launch in 2009 of the Pension Quality Mark and more recently of the PQM READY for master trusts, is a core element of our wider focus on governance and standards in DC pensions.

Another challenge for 2014 is making sure that the millions of new pension savers are enrolled into schemes that can deliver good outcomes. The NAPF strongly believes that scale and good governance are key to achieving this.

Richard Wilson, defined contribution policy lead

NEST

Looking back over the last year, I think we can confidently say that automatic enrolment so far has been a real success.

Employers have successfully enrolled 2.5 million workers. We're proud to have played a major part in that and we've seen exponential growth – from 80,000 members and 340 employers at the end of March 2013 to almost 800,000 members and 2,500 participating employers by the end of the year. We've worked hard alongside other providers to help ensure employers could meet their duties. Employers have also been supported by an army of intermediaries, including advisers, payroll providers and administrators.

Opt-outs for NEST members have been far lower than expected, averaging around 8 per cent which is great news. This pattern is not consistent across age groups however and rates can be double this level among people aged 50 and over.

Looking forward, we know that 2014 is going to be an incredibly busy year for NEST with the potential for between 10,000 and 20,000 employers to come through our doors.

Much has already been said about the potential for a 'capacity crunch' among pension providers in the spring, when between 20,000 and 30,000 employers reach their staging dates. And that's just the start. Employer numbers increase substantially from that point until implementation is complete in 2018.

What's clear is that employers expect to get help, not only from providers in terms of the tools they provide but also from intermediaries. We want to help intermediaries meet their clients' needs and have been working closely with IFAs, payroll and business services providers throughout 2013.

For us, in 2014 good for employers would look like:

- Employers understand how to meet their automatic enrolment duties, comply on time and have easy access to good quality, low-charge schemes. For that to happen, they need to get ready as early as possible to make sure their worker data is in a good place.
- But it's not all down to employers. Providers and intermediaries should continue to work together to ensure employers have good quality schemes available for all their workers and feel reassured that they have everything they need in place.

Good for intermediaries would look like:

- Intermediaries take advantage of the potential that automatic enrolment brings to their business and have adapted their services to ensure they not only help employers understand their duties, but can give employers ongoing support if that's what their clients want.

Good for members would look like:

- Participation in workplace pensions as a whole continues to increase and opt-out rate remains low. We'd like to ensure this is true across all ages. We think the higher opt-out rates among older workers are worrying given that people in their 50s could have 10 to 20 years of saving open to them. We'd like to try and help older workers understand why they should seriously think about staying in their workplace pension when enrolled.
- The consensus that saving in a workplace pension is the right thing to do for most people remains strong.

For the longer term, as an industry we also need to think about how to engage all members once they start saving to help them think about whether their contributions are enough to meet their aspirations.

Tim Jones, chief executive, NEST

Which?

Automatic enrolment has made a promising start with opt-out rates remaining low. In our focus groups, those who had just been automatically enrolled expressed relief that they were finally doing the right thing in saving for their retirement.

There has also been some progress made in protecting consumers. Following Which? mystery shopping exposing the risk of high 'consultancy charges' being taken, the Minister of State for Pensions decided to ban this practice. There is now widespread agreement that merely disclosing pages of information to consumers and employers will not be sufficient.

However, there remains more to do. It is vital that all schemes used for automatic enrolment are high quality, free from conflicts of interest, offer protection for consumers' assets, have low charges and provide value for money. The level of charges in the pension scheme used for automatic enrolment will have a substantial impact on the final pension received by the employee.

Confidence in pensions is fragile and strong quality requirements and a charge cap need to be implemented quickly so consumers automatically enrolled into pension schemes can be reassured that their schemes offer value for money.

Over 14,500 consumers supported Which?'s pensions campaign. This called for the charge cap to be set at 0.5 per cent a year and applied to all existing as well as new workplace pensions. Employees will regularly switch jobs so the practice of applying deferred member penalties, potentially doubling charges also needs to be banned.

Most importantly the governance of all schemes needs to ensure that those running the schemes have clear legal duties to get the best deal for scheme members. This should include regularly reviewing charges and ensuring that the process of taking a retirement income involves shopping around and delivers the right type of annuity for the consumer and as much income as possible.

Finally, although this will be a difficult task, we need to continue to attempt to improve consumer engagement in their pensions. All schemes should provide clear, jargon-free information that helps consumers understand how much they might need in their retirement, what they might get from their existing pension provision and what options they have to make up any gap.

Dominic Lindley, financial services team leader

Appendix: sources

This report draws on information and insights from a number of different sources. It has been informed by a wide variety of published research papers, our own research and analysis of data from a number of different surveys conducted by the DWP and other organisations.

Research by NEST

This report draws on a number of our own qualitative and quantitative research projects which explore what individuals, employers and intermediaries think of automatic enrolment, pensions and NEST.

Quantitative research

Employer readiness survey

We carry out regular surveys of employers that track their awareness, understanding and preparation for the reforms. Each survey involves between 500 and 700 employers.

Intermediary survey. Our regular survey of intermediaries tracks their preparations for the reforms and how they're approaching supporting their clients. Each survey involves between 150 and 180 employee benefits consultants and independent financial advisers.

Consumer survey. This is a regular survey of 1,000 consumers who were either eligible for automatic enrolment or had recently been automatically enrolled. It tracks their awareness, understanding and attitudes towards automatic enrolment and pensions.

Employer decision-making quantitative survey, 2009. This research was carried out by the Personal Accounts Delivery Authority before the launch of NEST. It's an in-depth exploration of employers' attitudes and knowledge about pensions and their expected approach to making decisions. We surveyed 3079 employers.

Qualitative research

Retirement Projections Research, 2013. In-depth interviews and group discussions with 105 individuals. The research explored individuals' perceptions of pension outcomes and what they needed from communications about outcomes. In this research we tested a number of different design concepts for probabilistic projections.

Investment Communications Research, 2012. Research exploring how to talk to potential members about investment and in particular about NEST's investment proposition. This project involved a combination of in-depth interviews and workshops with 175 people.

Employer-readiness qualitative research, 2013. In-depth interviews with 25 employers due to reach their staging date in 2014 and an additional five interviews with larger employers who had already reached their staging date. The research complemented our quantitative surveys and explored in detail the expected compliance journey for firms staging in 2014.

Employer decision-making qualitative research, 2008. This research was carried out by the Personal Accounts Delivery Authority before the launch of NEST. We carried out in-depth interviews and group discussions with 142 employers and intermediaries to find out how the reforms might affect employer attitudes to workplace pensions.

Research by other organisations

We also draw upon the research of other organisations to inform our work.

Department for Work and Pensions

Automatic enrolment evaluation report, 2013. Available at www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013

Automatic enrolment: qualitative research with large employers, 2013. Available at www.gov.uk/government/publications/automatic-enrolment-qualitative-research-with-large-employers-rr851

Research on Predictions of Income in Retirement, November 2010. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/214385/WP87.pdf

Attitudes to Pensions: the 2012 Survey, 2012. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/193372/rrep813.pdf

Pensions Portfolio: Communications Tracking Research, July 2013. Available at www.gov.uk/government/uploads/system/uploads/attachment_data/file/251435/pensions-communications-research-july-2013.pdf

Chartered Institute of Insurers

Are we in yet? A report into small business employers' readiness for the workplace pension reforms, 2013. Available at www.cii.co.uk/media/4794166/are_we_in_yet_cii_auto-enrolment_report_27aug2013.pdf

Employer pension provisions survey, 2011. Available at: www.gov.uk/government/publications/employers-pension-provision-survey-2011rr802

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Workplace Pension Survey, October 2013. Available at www.napf.co.uk/PolicyandResearch/DC/NAPF-workplace-pension-survey.aspx

Institute of Directors

Another new dawn for pensions, spring 2013. Available at www.iod.com/~/media/Documents/PDFs/Influencing/Taxation%20pensions/Pensions/2013/Retirement%20_not_what_it_used_to_be

The Pensions Regulator

Employers' awareness, understanding and activity relating to workplace pension reforms, spring 2013'. Available at www.thepensionsregulator.gov.uk/docs/employer-awareness-workplace-pensions-report-spring-2013.pdf

The Pensions' Regulator (Spring 2013) *Intermediaries' awareness, understanding and activity in relation to workplace pension reforms*, spring 2013'. Available at www.thepensionsregulator.gov.uk/docs/spring-2013-intermediary-final-report.pdf

Automatic enrolment: Registration report, January 2014 . Available at www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report.pdf

Automatic enrolment: Employer forecast staging profile, January 2014. Available at www.tpr.gov.uk/staging-profile

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