

An evaluation of scheme joining techniques in workplace pension schemes with an employer contribution

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This report presents findings from qualitative case study research, designed to enhance understanding of how workplace pension scheme joining techniques work. The techniques studied were Automatic Enrolment, Streamlined Joining and Active Decisions. The study evaluated the impact of these techniques on pension scheme membership and the effects for individuals who did, and did not, become scheme members. The research also examined the barriers to change perceived by some employers who chose not to adopt these techniques.

Key findings

The case study evidence suggests that Automatic Enrolment can be an effective technique for increasing pension scheme membership and that it is one of a range of techniques that can reduce employers' and providers' administrative burdens and costs whilst simplifying the process for employees.

Automatic Enrolment and Active Decisions were found to be more effective at increasing membership and tackling inertia than Streamlined Joining. There were considerable variations in participation rates, however, after enrolment techniques changed in the 11 private sector schemes studied, including variations among schemes adopting the same technique.

Employees reported that their need for information and advice about retirement planning was not reduced by the joining technique their scheme used. Across all three joining techniques, employees valued in-person communications for providing personal advice and problem-solving.

Interviews with employees across all joining techniques showed that non-members had commonly considered whether or not to join. Some felt that they could not afford to save into a pension, and in these cases, there was some evidence that non-members had made a conscious decision not to join or had made the effort to opt-out regardless of the enrolment technique.

Summary of research methodology

To evaluate the impact the joining techniques studied had on pension scheme membership and the effects for individuals who did, and did not, become scheme members, a case study approach was adopted. The study involved 11 private sector pension schemes where a change was made away from traditional opt-in and two public service pension schemes where Automatic Enrolment had been used since the schemes' inception.

These case studies comprised:

- Depth interviews with pension providers, IFAs, employers and employees, both members and non-members of the pension scheme
- Where they could be provided by employers and pension providers, administrative data on participation, contributions and membership demographics from payroll and membership records

The case studies were supported by two additional components that focused on possible barriers to change:

- Depth interviews with 14 'reluctant employers'

that had considered but rejected Automatic Enrolment

- Two focus groups with IFAs who had their own views on non-traditional enrolment techniques and had experience of how employers regarded and made decisions about enrolment techniques

Strengths and limitations of the evaluation

Like all qualitative data, this material was rich in detail and subjective insights. The case studies provided different perspectives on the same phenomena, but they were not representative of all pension schemes, or even all pension schemes adopting the techniques studied.

In an evaluation of this small scale, findings are indicative, not definitive, and the limitations in the data that were available mean that it is not possible to impute causality or conclude that similar outcomes would be achieved in different circumstances. Nevertheless, a substantial body of new qualitative evidence is available.

Impact of Automatic Enrolment on participation rates

In the case study schemes, Automatic Enrolment appeared to be associated with increased participation rates after the change, although other factors including a required employee contribution, supporting communications and employer commitment may have influenced the outcomes achieved.

Where administrative data were available from private sector schemes adopting a new enrolment technique, the demographic profiles of members before and after the change were not appreciably different in terms of age, gender or income.

Employers' reasons for changing their scheme's joining technique

The case studies suggested that two motivations dominated employers' thinking as they considered changing their scheme's enrolment technique – a desire to increase membership and a wish to control the costs and administrative burdens of operating the scheme. Employers made their decisions to adopt a new technique with some reasonable expectations of what the different techniques might achieve, and the impact of each technique was found to be broadly in keeping with the employers' reasons for adopting it.

The study found that the employers' objectives determined which joining technique was adopted:

- Employers adopting Automatic Enrolment wanted to increase membership
- Employers switching to Streamlined Joining wanted to reduce administrative costs and control the burden of administering their schemes
- Employers implementing Active Decisions had two objectives. Having accepted that their contribution costs would rise as membership rose, they hoped to encourage employees to join the scheme by making the joining process less difficult. They also wanted to encourage employees to take more responsibility and make more informed choices about planning for retirement

Across all three techniques, implementing the new joining technique was reported to have been straightforward and largely trouble-free, executed at middle management level and accomplished within two to four months. Neither the decision-making process nor the implementation process had posed serious or consistent difficulties.

Barriers to adopting Automatic Enrolment reported by employers

Employers that had considered but rejected Automatic Enrolment or had used it briefly before moving back to the traditional technique highlighted three reasons for not adopting, or abandoning, Automatic Enrolment:

- Fears that employees would react negatively to being enrolled without their knowledge or consent
- Expectations that the cost of employer contributions would rise to unsustainable levels as more employees were enrolled automatically, and that these costs would not be entirely offset by somewhat lower administrative costs and burdens
- Risks of enrolling employees whose personal circumstances meant it would be disadvantageous for them to join. Such worries centred on employees who might not stay long with the company or who might have made other provisions for income in retirement

Barriers to joining workplace schemes reported by employees

Depth interviews with employees showed that, regardless of joining technique, non-members had typically considered whether to join their workplace scheme. As a result, non-members had taken conscious decisions not to join or made the effort to opt out if Automatic Enrolment was in use.

Reasons for not joining, which none of the enrolment techniques studied overcame entirely, pertained mainly to:

- More pressing financial needs, which persuaded some that they could not afford to join or should opt out
- Lack of understanding or confusion about pensions, resulting in no action being taken to join or opting out of the scheme

- Having (or anticipating having) other savings in place, such as another pension, a spouse's pension or property, which some thought was a better solution than a pension

Inertia

Inertia – allowing confusion or uncertainty to result in no action being taken to join – was more evident among employees where Streamlined Joining was in use. Despite simplifying the joining process, Streamlined Joining appeared to have been less effective than the other two techniques studied in combating inertia.

Under Streamlined Joining and Active Decisions, having to select an investment fund before enrolment could be accomplished appeared to inhibit joining, because it posed choices for employees that some said they had found puzzling and difficult. Automatic Enrolment solved the problem by initially assigning members to a default fund from which they could subsequently move.

Required employee contribution

Required employee contributions were found to deter some employees from joining workplace pension schemes, regardless of joining technique and in public service as well as private sector schemes. In the schemes where employee-level administrative data were obtained, low paid and part-time workers were disproportionately affected. Even in the two public service schemes that were studied, which offered fairly generous employer contributions, the required employee contribution may have provided an incentive for lower paid and short-term staff to opt out, although membership rates overall remained relatively high.

The importance of communications

All three techniques simplified and changed the nature of the joining process, most dramatically Automatic Enrolment, where the consequences of employees' taking no action were reversed. Communications, including those dedicated to

pensions and those serving a wider purpose within the organisation, were central to implementing all three of the joining techniques studied.

Employees typically felt that they had been sufficiently well informed to make a sound decision about joining their workplace scheme, particularly in public service organisations. Across all techniques, employees valued in-person communications for information, personal advice and problem-solving.

Employees reported that their need for information and advice about retirement planning was not reduced by the joining technique their scheme used. Nevertheless, greatly simplifying application forms lessened employees' need for help in completing them. In addition, deferring the choice of an investment fund, as Automatic Enrolment did, removed a barrier to understanding that could give rise to inertia in schemes using other techniques.

In some cases when the benefits available had not been well understood by employees, automatically enrolled employees opted out. Occasionally these judgements were based on inaccurate information, such as when employees felt they could not afford to save into a pension, even when their scheme did not require employees to make a contribution.

Saving enough for retirement

Members as well as non-members across the schemes studied commonly thought that they were not saving enough for retirement. Some had plans to remedy this situation, usually involving joining or saving more into a workplace scheme, but others were vague about what they would do. The newly-adopted enrolment techniques neither allayed these concerns nor helped people formulate plans to save enough for retirement.

In the schemes studied, joining techniques had changed fairly recently. While some immediate associations with participation rates were observed, the joining techniques will need to be monitored over a longer period to determine their long-term impact on the adequacy of savings for retirement.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 903 8. Research Report 292. October 2005).

It is available from Paul Noakes at the address below.

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