

## SUMMARY OF EMERGING RESEARCH FINDINGS

### EMPLOYERS' ATTITUDES AND LIKELY REACTIONS TO THE PERSONAL ACCOUNT REFORMS 2007: A QUANTITATIVE SURVEY

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#### Summary

Emerging findings from a nationally representative survey of employers' attitudes and likely behaviour in response to automatic enrolment into a qualifying workplace pension scheme, a minimum employer contribution and the setting up of a new personal accounts scheme, show:

- There is broad support for these reforms from employers of all sizes. Overall, six in ten (58%) employers thought that the reforms were a good idea.
- The majority of employers said that they would be most likely to manage the additional costs of the reforms either by absorbing the increase through overheads (28%), through increased prices (21%), or lower wage increases (14%).
- Among employers who are already making pension contributions of 3% or more, most (86%) expressed an intention to maintain or even increase contribution levels for existing scheme members, following introduction of the reforms.
- In relation to their new employees, about half (51%) of those contributing 3% or more said that they intend to offer new employees their existing contribution levels or even higher. Three in ten (30%) of those contributing 3% or more said that they might reduce contributions for new employees, although it tended to be smaller employers who said this:
  - An analysis excluding micro-employers shows that, among those contributing 3% or more, 64% of employers with five or more employees plan to offer their existing contribution levels or higher to new employees. Only 17% of these employers say they might reduce contributions for new employees.

This note presents some of the key findings that are starting to emerge from this survey. Analysis is continuing and it is currently anticipated that a full report of findings will be published in 2008.

## Background to the research

This survey was commissioned as part of a programme of research and analysis to track attitudes and likely reactions to the Government's proposals to encourage and enable more people to save for their retirement.

This survey explores likely employer behaviour in relation to proposals to automatically enrol eligible workers into a qualifying workplace pension scheme with a minimum employer contribution, and the introduction of a personal account scheme to provide a simple, low-cost pension saving scheme for moderate to low earners currently without access to a workplace pension scheme.

This programme of research includes a parallel survey of individuals' attitudes and likely reactions to the personal account reforms<sup>1</sup>.

## Methodology

This research is being carried out by BMRB on behalf of the Department for Work and Pensions (DWP). It involves a nationally representative quantitative telephone survey of about 2,400 private sector employers across a range of sizes and industries in Great Britain. The survey is designed to be representative of all private sector employers in Great Britain with one or more employees. The sample was drawn from the Inter-Departmental Business Register (IDBR) which is a comprehensive list of employers compiled from Value Added Tax (VAT) and income tax returns.

Interviews were carried out with the person responsible for making decisions about pension arrangements. Consequently about two thirds (65%) of those interviewed were, the Managing Director or Chief Executive, owner or partner of the business, were at Director level, the Finance Director or occupied senior positions in the Finance Department.

This survey updates a previous DWP survey of employers' attitudes and likely responses which was carried out in May 2006 following publication of the Pensions Commission's report.<sup>2</sup>

Interviews for this survey took place between July 2007 and September 2007.

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<sup>1</sup> Research by Ipsos MORI for DWP (Smith P, Webb C, Pye J, Robey R, and Jeans D, forthcoming in 2008, *Individuals' attitudes and likely reactions to the personal account reforms 2007: Report of a quantitative survey*). A summary of key findings emerging from this survey can be found at <http://www.dwp.gov.uk/pensionsreform/factsheets.asp>

<sup>2</sup> Bolling K, Grant C, Fitzpatrick A and Sexton M, 2006, *Employer attitudes to personal accounts: Report of a quantitative survey*, DWP Research Report No 397; Pensions Commission, 2005, *A new pension settlement for the twenty-first century: The second report of the Pensions Commission*, TSO.

## Emerging findings

This note presents some of the findings that are starting to emerge from this research. Analysis of the findings is ongoing, and it is currently anticipated that a full report of findings will be published in 2008.

### Awareness and attitudes to the Government's reforms

- Approaching half of employers (46%) had heard something about the government's personal accounts reforms, however, very few (3%) had heard a lot about the reforms. Awareness increased with employer size.
- Six in ten employers (58%) thought that the proposals were a good idea.
- Across all size categories more employers thought the reforms were a good idea than thought they were a bad idea:

**Table 1** Employers' views of the Government's proposals

	Size of organisation (number of employees)					
	1 - 4	5 - 49	50 - 249	250 -499	500 or more	All
	%	%	%	%	%	%
A good idea	60	50	69	74	89	58
A bad idea	24	36	15	15	9	27
It depends	7	7	7	8	1	7
No opinion/Don't know	8	8	8	3	1	8
<i>Unweighted base</i>	573	630	470	306	420	2,399
<i>Weighted base</i>	1,755	581	46	4	13	2,399

Base: All private sector employers

### Strategies for dealing with additional costs of the reforms

- Employers have several ways of managing the additional costs of the reforms. The majority of employers said that they would be most likely to manage the additional costs of the reforms either by absorbing the increase through overheads<sup>3</sup> (28%), through increased prices (21%), or lower wage increases (14%). Some employers (10%), particularly

<sup>3</sup> This may include profits

smaller employers, said that they would be most likely to manage these costs by encouraging their employees to opt-out<sup>4</sup>. Eight per cent indicated that they might restructure or reduce their workforce.

### **Likely contribution levels following introduction of the reforms**

- Among employers who are already making pension contributions of 3% or more, most (86%) expressed an intention to maintain or even increase contribution levels for existing scheme members.
- In relation to their new employees, about half (51%) of those contributing 3% or more said that they intend to offer new employees their existing contribution levels or even higher. Three in ten (30%) of those contributing 3% or more said that they might reduce contributions for new employees, although it tended to be smaller employers who said this<sup>5</sup>:
  - An analysis excluding micro-employers shows that, among those contributing 3% or more, 64% of employers with five or more employees plan to offer their existing contribution levels or higher to new employees. Only 17% of these employers say they might reduce contributions for new employees.
- Among employers contributing less than 3%, or not making any contributions, 62% said that following the introduction of the reforms they would contribute at the minimum required level, however a few (6%) said that they might contribute at more than 3%.
- Similarly, among those who have not set up, or arranged any access to, a pension scheme<sup>6</sup>, 52% said that following the introduction of the reforms they would contribute at the minimum required level, however a few (5%) said that they might contribute more than 3%. There was a high degree of uncertainty among this group with just under a third (31%) not knowing or not commenting on the amount they would contribute.

### **Where will people be enrolled?**

- Most employers (87%) currently making contributions of 3% or more said that they will maintain their current scheme for existing members. Only 4% of firms contributing at 3% or more said that they would close

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<sup>4</sup> This view was provided in the absence of any understanding about the likely compliance regime or that this would not be a legitimate thing to do.

<sup>5</sup> About two in ten (19%) did not know what they would do, or gave other answers.

<sup>6</sup> Employers employing five or more people have to make one or more stakeholder pension schemes available to their staff unless they offer employees access to an occupational pension scheme or contribute an amount equal to at least 3% into an employee's personal pension. Employers in the group not currently providing access to a pension scheme were generally micro-employers with fewer than five employees.

their scheme and put everyone into the new personal accounts scheme.

- In relation to their new employees, around four in ten (43%) of those contributing at 3% or more said that they plan to enrol all new employees into their existing scheme. About three in ten (34%) said they might enrol their new employees into personal accounts, although it tended to be smaller employers that said this.
- Employers contributing less than 3% or not making any contributions were more likely to say that they will enrol people into personal accounts, but nevertheless 20% said that they might enrol non-members and new employees into their existing scheme.
- Employers who have not set up, or arranged any access to, a pension scheme tended to say that they would enrol their employees into the personal accounts scheme, but some (15%) said that they plan to set up their own pension scheme and enrol all their employees into this scheme.