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NATIONAL
EMPLOYMENT
SAVINGS TRUST

NEST insight 2015

Taking the temperature of auto enrolment

About NEST insight

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

It looks at the behaviours and attitudes of members 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 workers who'll be enrolled in the coming years and the employers yet to reach their staging date.

Our views are based on feedback gathered over the year from our customers, and quantitative and qualitative research among consumers, employers and intermediaries. We've also looked at research conducted by The Pensions Regulator, the Department for Work and Pensions and trade bodies, consumer groups, the pension provider community and other government departments.

automatic enrolment

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Foreword

Welcome to the third edition of *NEST insight*. Once again it has been an exciting year with auto enrolment reaching five million people, many of whom are saving in a workplace pension for the first time.

The evidence we have gathered this year points to a policy working as intended, with the power of inertia producing impressive results as opt outs remained low. It will be interesting to see if that remains the case as auto enrolment reaches small and micro employers.

As with previous years, *NEST insight 2015* sets out what we have learned so far and considers the challenges of what might happen in the year ahead.

Of course the future of pensions has been altered very considerably by the new pension freedoms, and we're currently consulting on the impacts for our members. However, *NEST insight 2015* seeks primarily to share our findings on how auto enrolment is impacting pension accumulation. We consider the data we have collected by audience: consumers, employers and intermediaries.

The introduction of auto enrolment seems to have resulted in consumers accepting the need to save for later life as 'the norm', with saving for retirement the third highest priority for extra disposable income for the second year running.

Contrary to what has been a fairly common narrative of 'my house is my pension', our findings show that property is in fact not a popular source for retirement income either by downsizing, equity release, or utilising income from second homes. It remains to be seen whether narratives around pensions and property change in the future as new options open up at retirement.

So how have employers fared? 2014 went relatively smoothly with NEST and the rest of the pensions industry bringing thousands of large to medium-sized employers on board with relative ease. It's worth noting that slightly more employers stayed with their existing provider than many had predicted. But many employers were turned down, including by their existing provider. When asked, 35 per cent of NEST's customers reported that providers they approached were unwilling to enrol their entire workforce.

Finally, it's clear that auto enrolment would not have gone so smoothly thus far without the intermediary community. Payroll providers and IFAs have been a vital part of the implementation of auto enrolment for mid-sized employers. But as the size of employer changes, so too does the nature of their intermediary needs. NEST research suggests that smaller employers will increasingly turn to accountants for help and advice in the coming year, and it's not currently clear whether accountants are as prepared as they may want to be for an increase in demand.

We have big challenges ahead, with an unprecedented number of employers needing to meet their auto enrolment duties. It is incumbent on providers, working with intermediary groups, to play their part in making compliance as easy as possible. Like NEST, many providers will be focusing their resources on creating innovative employer-led solutions to ensure that happens.

At the midpoint of auto enrolment staging we can look back and say with confidence, 'so far so good'. However, it remains the case that the success of this policy depends on the support of many diverse players.

Remarkably auto enrolment is owned in some measure by all political parties, both in conception and delivery. Although there is always discussion about how some of the detail can be further refined, that consensus remains strong.

As the industry gears up to work with significant volumes of employers and intermediaries, it's important that we work collaboratively and keep our eyes on the goal - helping a new generation of savers save confidently for their retirement.

I hope this report will be useful and informative to everyone working towards this common endeavour.

Tim Jones
CEO
NEST Corporation

Summary

Consumers

Pensions still a priority

Pensions retain 'top three' position for consumers when asked how they would prioritise spending if they had more money, which is a good sign.

	2011	2013	2014
1	Holidays/ travel	Holidays/ travel	Holidays/ travel
2	Home improvements	Saving for a rainy day	Saving for a rainy day
3	Socialising and going out	Saving for retirement	Saving for retirement
4	Saving for a rainy day	Clearing debts and loans	Home improvements
5	My car	Putting money aside to watch it grow	Putting money aside to watch it grow
6	Shoes and clothes*	Home improvements	Clearing debts and loans
7	Saving for retirement	Saving for a new home	Paying off the mortgage
8	Paying off the mortgage	Paying off the mortgage	Saving for a new home
9	Saving for a new home	Socialising and going out	Socialising and going out
10	Making sure my children have everything they need	Making sure my children have everything they need	Shoes and clothes*

Consumer surveys (NEST)

*This item was not repeated in the 2013 survey

Data not collected in 2012

Safe as houses?

The 'my house is my pension' narrative doesn't seem to be playing out.

When asked where the greatest proportion of their income in retirement will come from:

50% say some form of pension

5% say main home

4% say second home or rental property

Auto enrolment is increasingly popular

When asked if they think auto enrolment is a good idea:

77% in 2014 agree

compared to

68% in 2013

63% in 2011

Even among those opting out

Those who opted out are also more likely to agree that auto enrolment is a good idea with:

61% agreeing in 2014

compared to

45% in 2013

And when asked if they'll stay enrolled next time around:

41% say yes in 2014

compared to

19% in 2013

Inertia is working

Opt out levels remain low.

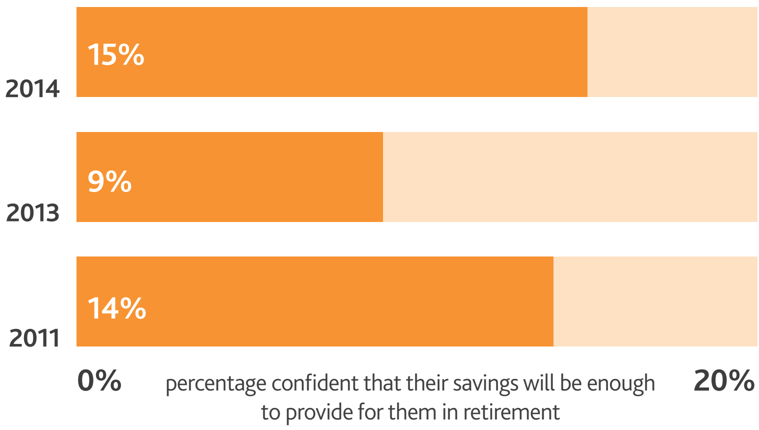
10% overall

compared to

8% at NEST

And confidence in saving for the future is bouncing back...

Workplace pension saving becoming 'the norm' may be improving confidence.



... potentially helped by introduction of new pension freedoms

The introduction of new pension freedoms seems to be raising the profile of pensions, even among the young.

34% of all respondents will think about planning for retirement sooner

rising to

40% among younger people (aged 22 - 30)

29% overall are more likely to increase their pension contributions

Employers

2014 employers coped well

Auto enrolment seems to have been more straightforward for medium sized employers and they rarely incurred substantial costs.

Less time preparing than large employers

Lower costs incurred than large employers

Although some were turned down by pension providers

35% of NEST's customers said that providers they approached were unwilling to enrol their entire workforce.

40% of IFAs said pension providers would not write schemes for one or more of their businesses

of the 40 per cent **one-third** say this happened frequently or all the time.

Support for the policy is high

Employers using NEST continue to tell us that workplace pensions are important and they support auto enrolment.

66% of employers using NEST say that a workplace pension is an important part of the overall package

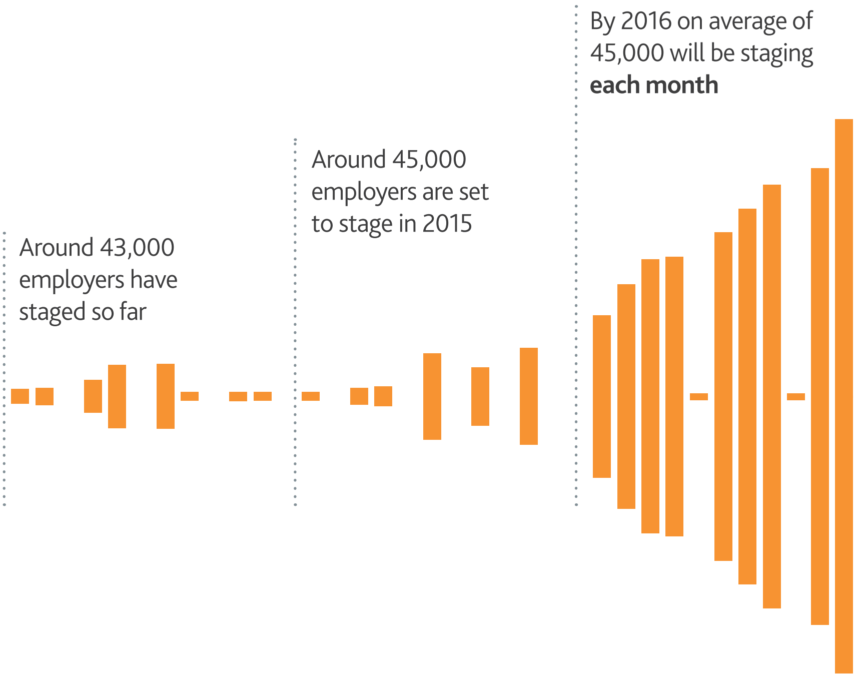
13% of them consider it not to be important

And support is running high among small and micro employers too, with

86% small and **75%** micro

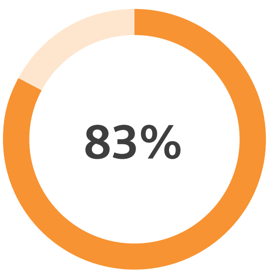
respectively saying that in principle auto enrolment is a good idea

The employer staging profile is about to ramp up



And small and micro employers may not be prepared

Small and micro employers have less experience of pensions



of employers yet to stage do not currently have an active scheme in place

And although

91%

of small employers and

85%

of micro employers are aware of the reforms

Only

18%

of small and micro employers feel they completely understand what it means for their business

Intermediaries

Demand for help remains high

Accountants are likely to see a significant increase in enquiries

74%
of small and micro employers expect to turn to an intermediary

59%
of them are likely to ask an accountant for help and guidance

rising to

70%
of those with only 1-4 workers

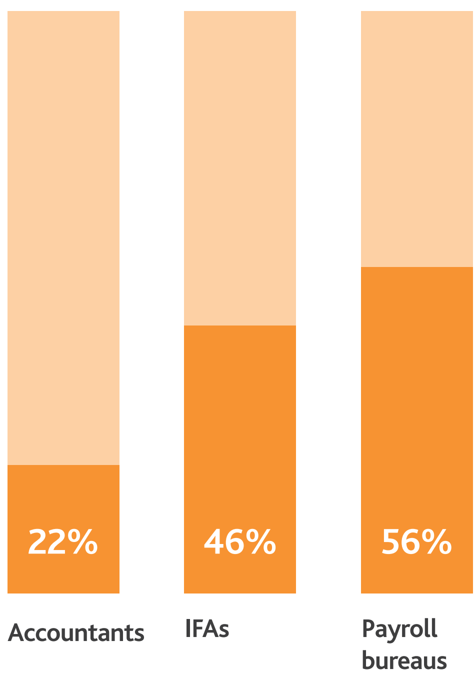
Are accountants ready?

Only **67%** of accountants say they know a lot about auto enrolment

compared to

over **90%** of IFAs and payroll bureaus

Percentage who have finalised their auto enrolment proposition:



Explaining the delay

Employers likely to turn to accountants for auto enrolment advice weren't affected in the first stages

The earlier stages of auto enrolment didn't affect businesses of

50

workers or fewer, which make up

90% of accountants' clients

57% of accountants say their main priority is to retain existing business

compared to

73% of payroll bureaus that see auto enrolment as an opportunity to acquire new business

Only **38%** of accountants expect an increase in business or customers because of auto enrolment

compared to

the **majority** of IFAs and payroll bureaus

Harnessing business opportunities together

43% of accountants indicate that they are offering services in conjunction with an IFA

Of that group **73%** are already working with an IFA to offer an auto enrolment solution

And a further **22%** are planning to do so

Public policy

Over the last few years change has been a constant in the policy environment around pensions. With the demand-side revolution of auto enrolment around 24 months in, the industry is also adapting to a range of other new developments. That includes the focus on quality and governance by both the Pensions Regulator (TPR) and the Office of Fair Trading (OFT) and working through the implications of the retirement reforms announced in the 2014 Budget.

More change is on the horizon. The process of automatic transfers is being finalised with collective defined contribution (CDC) and guarantees still in the frame as the industry and government work these through.

In short, the last 12 months have seen extensive changes in the policy landscape. This chapter aims to give a brief overview of those changes, and the potential impacts for auto enrolment and NEST members.

Understanding 'Freedom and Choice'

2014 has seen a radical redrawing of the retirement income map and the options available to savers in defined contribution schemes as they approach later life. The Budget swept away the requirement for individuals to purchase an annuity as a means of generating a retirement income. Instead, the government introduced broad new freedoms that will allow individuals to choose how to access their pension pots.

Alongside these new freedoms, the Chancellor announced that a free 'Guidance Guarantee' (now called Pension Wise) would be put in place to help people make informed choices. The language around the reforms is all about freedom, giving people more flexibility in how they access their pension pots and encouraging individuals to take personal responsibility.

Auto enrolment has successfully harnessed inertia, recognising that consumers generally don't act if they have to make a choice about pensions. This has brought about a sea-change in pension saving. Much of the research contained in this report highlights the progress of the policy so far.

With the new retirement savings market driven by 'nudge' behavioural economics and the retirement market driven by active choice, a key challenge for the pensions industry is how we bring those two philosophical positions together in a coherent savings path. In short, how can we support a population generally inert in pension saving to help them become a more proactive one in the run up to retirement?

NEST is examining this topic through our consultation, *The future of retirement: a consultation on investing for NEST's members in a new regulatory environment*, with academics, industry professionals, consumer groups and behavioural economists. We will publish our findings later in the year.

Quality and governance in qualifying schemes

The Budget reforms come at a time when the pensions industry is under considerable pressure on governance and charges. An OFT report in September 2013 found that competition alone could not be relied upon to drive value for money for all savers in the defined contribution (DC) workplace pension market. It made a number of recommendations, including improving governance through the introduction of independent governance committees and improving the transparency and comparability of information about charges.

Since then, the pensions industry has been subject to a number of interventions to stimulate supply-side reform, including the introduction of a charge cap, scrutiny over transaction charges and the abolition of consultancy charging and active member discounts.

There have been other developments in governance too. In 2013, The Pensions Regulator introduced a code of practice for DC trust-based pension schemes *(Code of practice no. 13)*, followed in 2014 by an independent assurance framework for master trusts in collaboration with ICAEW (Technical Release AAF 02/07: *Master Trust Supplement*).

Implementing auto enrolment

The story of auto enrolment so far is one of policy success, but it's early days.

Progress so far is the result of the hard work of many players including government, consumers, employers and the pensions industry, built on a consensus that has been maintained over almost a decade. This consensus is underpinned by a shared understanding of the problem of under-saving and under-provision of workplace pensions and a common acceptance of the solution. While the language of pensions is often complex, the components of the policy consensus are quite simple: most workers should be offered a workplace pension with an employer contribution. They should be offered that on an 'opt-out' rather than an 'opt-in' basis and employers should have a free choice of pension provider for their workforce. NEST exists to support the consensus and to ensure all employers have access to a good quality scheme.

However, while we have automatically enrolled almost 50 per cent of the total population of new savers only 3 per cent of employers have been affected so far. The challenge for policy makers, employers and the pensions industry, supported by NEST, is to continue to roll out the programme successfully for the remaining 97 per cent of employers through to 2018.

Looking to the future

Of course it's unlikely the policy landscape will stagnate. In December 2014 the Pensions Minister announced his intention to extend the new pension freedoms to people who have already bought an annuity. There remain unresolved issues concerning small pots, live debates over qualifying earnings thresholds and contribution levels, as well as questions over how to respond to the innate consumer desire for more certainty while achieving the returns they need to meet their aspirations in retirement.

For NEST, the lens through which we examine any future changes and developments will be what's in our members' interests.

Consumers

One year on - still a quiet welcome for auto enrolment?

In the last *NEST insight* report we talked about a 'quiet welcome' for auto enrolment. Can we still describe it as such?

This year we found that 77 per cent of people agree that auto enrolment is a good idea, compared to 68 per cent of people in the previous year. For those who had been enrolled and not opted out, the top three motivators to stay in are still:

- not wanting to lose employer contributions - 50 per cent, the same as last year
- feeling that it's time to start saving for retirement - 45 per cent, compared to 43 per cent last year
- it was the easy thing to do - 37 per cent, same as last year

Of those who have already been enrolled, 58 per cent had spoken positively about auto enrolment and 48 per cent would recommend auto enrolment to friends and colleagues. So the picture remains positive - overall, more people agree that auto enrolment is a good idea and are talking in positive terms about it.

This isn't just because there are more people who have been enrolled now - our sample includes people who are yet to be enrolled, and even those who have opted out.

NEST found that 68 per cent of those eligible for auto enrolment but not yet enrolled think it is a good idea.

There are also signs that awareness of the Budget changes may make some of those not yet enrolled more positive about workplace pensions. While a majority (68 per cent) is unsure one way or the other, only 7 per cent are less likely to want to join a workplace pension as a result of knowing about the changes, and 26 per cent are more likely.

Opt-out rates still low, but variations across age groups

In 2013 opt-out rates at NEST were running at 8 per cent on average and at the end of 2014 they were still running at the same level. The latest Department for Work and Pensions (DWP) report on opt-outs showed an average rate of 10 per cent, with a range of between 5 and 15 per cent. This finding is not significantly different to a previous 9 per cent figure in the equivalent 2013 research. As the report stated, opt-out rates seem to be currently stabilising at around 1 in 10.

As we noted in last year's *NEST insight* report, low opt-out rates at the large employers that had staged up to that point may have been influenced by positive employer communications and the existence of a 'pension culture'. For their workers, being in a workplace pension was perceived as the norm.

Smaller employers will be less likely however, to have the time, resources and expertise in house to devote to employer communications around auto enrolment. Our research with members who were enrolled in the first half of 2014 suggests that those working for smaller employers are often first introduced to the concept of auto enrolment at workplace meetings. Also, where there is no prior pension provision, the managers introducing auto enrolment to staff may be joining the new scheme themselves. These are all factors that may impact on opt-out rates in the future, some negatively, some positively.

Opt-out among older workers

While opt-out rates seem to be stabilising overall there is a large variation by age, with only a 5 per cent opt-out rate at NEST among workers under 30 years old compared to more than 28 per cent opting out among those aged 60 and over. That suggests a generational split in the auto enrolment landscape - with 1 in 4 older workers opting out, compared to 1 in 20 younger workers.

The relative reluctance of older workers to stay in a workplace pension is not because of any negative attitude towards auto enrolment per se or perceptions of affordability. 78 per cent of older workers - almost the same as the broader sample - think auto enrolment is a good idea. Older workers who opted out are actually less likely than others who opt out to state that they did so because of affordability (12 per cent compared with 21 per cent on average).

For them, it is not issues of trust or concerns about the expense but reservations about long-term benefits when starting later in life. NEST found that 31 per cent of those over 51 who opted out said that it was because they were too close to retirement for it to make a difference.

Looking at older workers who have stayed in, it's clear that they have embraced the benefits of employer contributions. 59 per cent of the aged 51+ group, compared with 50 per cent on average, cite employer contributions as a reason for staying in. Therefore emphasising the message that opting out will mean missing out on 'free' money could act as real encouragement to those who are unsure about staying in.

All those who have opted out - motivations

Widening the focus from older workers to all those who have opted out, our research shows affordability is still the top reason, given by 30 per cent of those who had opted out, rising to 49 per cent of those with a salary between the auto enrolment threshold (£10,000) and £15,000. This is lower than 2013, however, when 49 per cent overall gave affordability as a reason, rising to 67 per cent of those earning under £15,000. While obviously important, affordability as a reason to opt out has dropped even among lower-paid workers.

People are also less likely to state that they have been motivated to opt out by a lack of trust in pension providers - only 16 per cent in 2014 compared to 27 per cent in 2013.

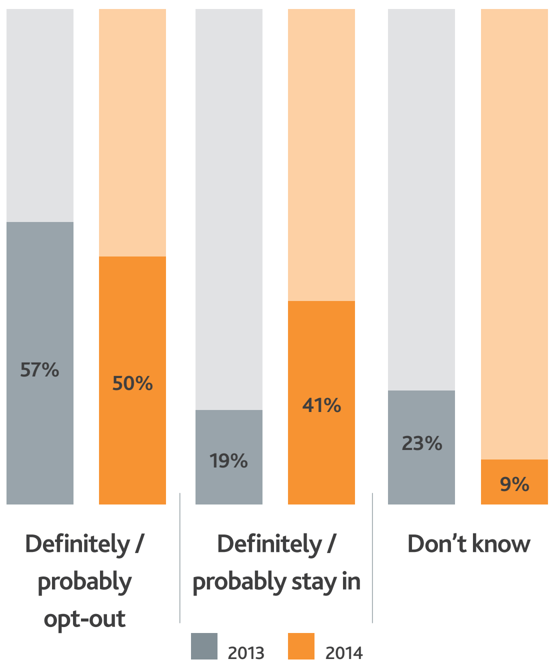
Other reasons given for opting out of their workplace pension scheme include:

- feeling that there are better ways of saving for retirement (22 per cent)
- saving for retirement using other means (19 per cent)
- thinking that the particular scheme wasn't right for them (18 per cent)

Despite having opted out, many are nevertheless positive about auto enrolment. 61 per cent of those who have opted out still think that auto enrolment 'is a good thing' - a substantial increase compared to 2013.

When asked what they would do when re-enrolled in three years' time, it's also by no means clear-cut that they will simply repeat the same behaviour. Their stated intentions are given below, contrasted with the 2013 data.

What will you do when you're re-enrolled in three years' time?



The 2014 data in particular suggests that those who opt out aren't necessarily a hard core of the eligible population who will never be enrolled in a workplace pension, but rather a flexible group who are deciding for pragmatic reasons at the time of their enrolment that they wished to opt out. Those opting out in 2014 seem more receptive to the policy as a whole. It may be that they are simply exhibiting deferment tendencies and will also opt out in three years' time. It could also be the case that if they are more positive about the idea before they re-enrol again, the default 'do nothing' nudge in the auto enrolment policy may work on them next time.

How attitudes to pensions and savings are developing

Saving for retirement remains a high priority

In the last *NEST insight* we reported that saving for retirement 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.

In our latest research we see that saving for retirement is still in the top three. 40 per cent mention this as a priority area, with 55 per cent mentioning holidays and 45 per cent mentioning 'saving for a rainy day'.

Given the comments we have made above on reasons why older eligible workers opt out, it's perhaps ironic that on this general point about priorities for spending 55 per cent of the 51+ group mention saving for retirement as a priority area. This is higher than the 40 per cent average. So they are even more likely to see saving for retirement as a priority. Does the combination of 'free' employer contributions and tax relief need to be brought to their attention more? Our research results suggest this is a powerful motivator.

Is economic confidence affecting attitudes?

Last year we reported that there seemed to be little confidence among consumers about their own immediate economic circumstances and prospects.

This year, it seems that there are now grounds for more optimism. Previously, we found that 45 per cent of people said it was a 'struggle to cope with day-to-day expenses', giving that as a reason for not putting aside as much money for retirement as they may have liked. In our 2014 consumer survey, the proportion of people expressing this view has fallen to 33 per cent.

It is worth noting that there is very little change between 2013 and 2014 in the number of people giving other reasons for not having put enough aside for retirement, such as 'not wanting to make the wrong decision' and having 'other things to spend money on'.

Confidence in provision for the future

Looking at general confidence in retirement savings, we found in 2013 that only 9 per cent of respondents were confident their current and future retirement savings would be enough to provide for them in retirement. In 2014, this has increased to 15 per cent.

We also asked those who have been automatically enrolled if they feel more comfortable about their retirement provision now. Exactly 1 in 5 say they do, the same proportion say they do not, while the majority are unsure.

While this is a bit of a mixed picture, the figures are perhaps entirely understandable. As we reported in *Improving Consumer Confidence In Retirement*, a fundamental question that pension holders have is, 'What will I get at the end?' Given that these newly enrolled members have been in their pensions for such a short amount of time it's quite natural that while they might feel good about being in a pension now, they aren't yet in a position to make a judgement on the eventual impact this will have on their retirement provision.

NEST and other providers can and should do what we can to build confidence among our members. But we need to understand that auto enrolment marks a massive behavioural shift. The new generation of pension savers may well develop that greater confidence in their retirement provision over time, but the time frames are likely to be measured in years.

Attitudes to pensions overall

Our latest data shows little year-on-year movement in attitudes to pensions and saving in general. Understanding of pensions is still limited, with just 32 per cent of people feeling they understand them while 20 per cent agree that 'they don't really understand pensions' and 48 per cent are unsure.

Perhaps as a result of people's limited understanding, they are also yet to be persuaded of the merits of pensions as a savings vehicle. Only a minority (15 per cent) agree that 'pensions are the best way to save for retirement', while 24 per cent disagree and 59 per cent are unsure.

However, on the other side of the coin, they aren't convinced that there are better ways of saving for retirement. Only 17 per cent agree that 'there are better ways of saving for retirement', with 19 per cent disagreeing and 65 per cent unsure.

Overall, there is still a picture of uncertainty and confusion around methods of saving for retirement. There is still only a small minority (13 per cent) of people who agree that they 'know enough about pensions to decide with confidence how to save', with the rest almost equally split between not knowing enough at all (40 per cent) and being unsure (46 per cent).

So while overall we see that auto enrolment has been endorsed and opt-out levels are low, there's little evidence that this has yet had a knock-on effect on wider attitudes and knowledge about pensions. However, it shouldn't necessarily be expected to do that on its own, with the policy being based on the principle of inertia and an individual not having to engage actively in order to begin saving for retirement.

One effect of the Budget changes, however, could be that it becomes increasingly important for individuals to become engaged with their pensions in order to access their pension pots in ways that will help them to meet their needs and aspirations.

What about property?

This year, we asked a few questions about how property stacks up alongside pensions in people's minds as an effective source of retirement income, and also the extent to which people actually intend to use property as a source of retirement income.

Our research shows that the idea of property as an investment for the future compared to pensions is quite attractive - a quarter of people agree 'it would be more effective to invest in property rather than a pension to get the retirement income I need'. Only a small minority actually disagree with this (16 per cent), with the rest (59 per cent) unsure.

Qualitative research that NEST has carried out with people approaching retirement confirmed this positive evaluation of property as an investment. However, the research also showed that in practice few people outside the south-east had considered the practicalities of this option in any detail and were not really aware of how much they could release. While the figures shouldn't be taken as representative as this was qualitative research, those that had downsized reported that this had not worked out to be as much as they expected - typically, this released £20,000 to £50,000. Respondents with buy-to-let properties also mentioned the possibility of releasing funds by selling off these assets, but awareness of the tax implications of doing so was very low and had not even been considered by the vast majority.

This confirms the importance of the idea of property in British culture and how it occupies the minds of many people. However the reality is that property is only likely to be a practical source of income for a small minority.

When we asked consumers what they expect to provide the greatest proportion of their income when they retire, only 5 per cent say 'main home to downsize or release money from' and 4 per cent 'a second home or property to rent out'.

In contrast, 50 per cent of respondents say that some form of pension other than the State Pension will provide the main source of their income - either a workplace pension they are currently paying into, a personal pension or a pension that is no longer being paid into.

Do workplace pensions make employers more attractive?

This year we have started looking at the extent to which people see the quality of an employer's pension as important when they are deciding where to work.

At the moment it is not seen as a motivator with only 15 per cent seeing this as important, 32 per cent seeing it as unimportant and 54 per cent not sure.

It will be interesting to see how this develops over time. As more people become automatically enrolled and having a workplace pension increasingly becomes the norm for UK workers, looking for a quality workplace pension might become more of an expectation.

There are signs from the early data that this might develop - slightly more of those who had already been automatically enrolled (17 per cent) say the quality of an employer's pension was important, while in contrast only 9 per cent of those yet to be enrolled think it is important.

This is perhaps a framing issue, with attitudes shaped by the extent to which employers are highlighting a pension as a prominent core benefit. If more employers do this, then more workers may start expecting a quality pension as an absolutely necessary component of their overall package. Currently, many employers may not yet be seeing a pension as a prominent recruitment and/retention tool for their workforce.

With auto enrolment only two years in, there may be a lag on issues such as this. While workers welcome the policy and on the face of it pensions seem to be more of a priority, data such as this shows that pensions are still not necessarily a 'front-of-mind' priority.

Responses to the new pension freedoms

Awareness and understanding of the changes

NEST has looked at the implications of the 2014 Budget changes for our members in detail in *The future of retirement: a consultation on investing for NEST's members in a new regulatory environment*. Here we explore some of that evidence alongside new research conducted among consumers in October 2014.

In our latest research we asked a number of questions regarding awareness and implications of the Budget changes. We found 48 per cent of consumers are aware of the Budget reforms, which is in line with other published surveys.

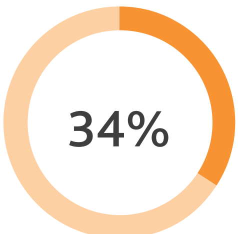
We found that men tend to be more aware of the changes than women (54 per cent compared to 38 per cent). Unsurprisingly awareness increases enormously among people getting closer to retirement, with 67 per cent of the 51+ age group aware of the changes. Awareness also increases with income, with those on lower incomes less likely to be aware than those on higher income. 44 per cent of people earning between £10,000 and £15,000 are aware of the reforms, compared with 64 per cent of those earning £50,000 or more.

However, when details of the changes were described to people, only 44 per cent claim to know about the options now available, with awareness rising again among older people and wealthier people.

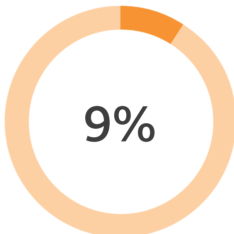
Immediate impact

When we probed opinions on the Budget in some detail in qualitative research we found that consumers are positive about them, particularly because they emphasise choice and control. As previous research from the DWP has shown individuals value choice strongly, even if they don't use it.

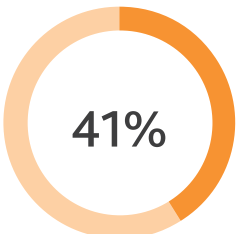
In separate quantitative research we asked consumers about the extent to which learning about the reforms might have an impact on when they are going to think about what to do with their retirement income. The responses reveal that the Budget may have had some potential impact on people's preferences, and not just among those who are closer to retirement.



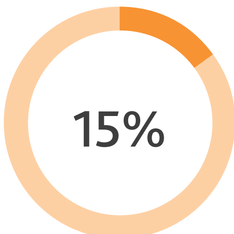
Start thinking about what to do with your retirement income much sooner



Leave thinking about what to do with your retirement income until much later



Not change my plans at all



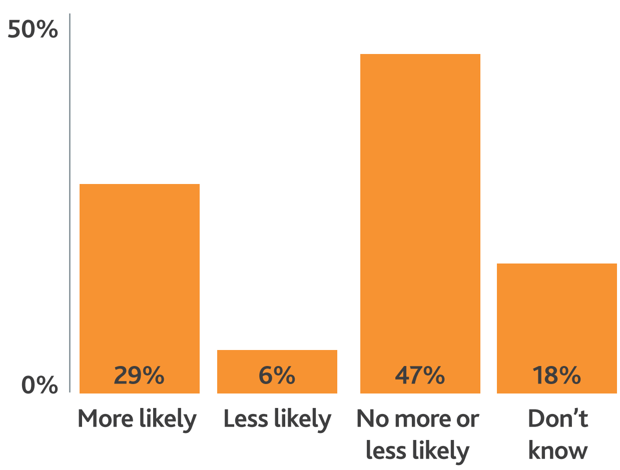
Don't know

34 per cent of the population state that they might think about what to do with their retirement income much sooner. However, as we have explored at more length in our consultation on the Budget reforms, on an issue like this there's often a difference between stated intention and eventual behaviour. Whether or not this actually happens will be something to look out for.

While they are a way off making any actual decisions, it is promising to see that higher numbers of younger people in the 22-30 age bracket claim they will start to think about what to do with their retirement income earlier (40 per cent). By contrast, 52 per cent of people approaching retirement say they are not planning to change their plans.

Respondents were also asked to what extent the Budget reforms might influence them to change their behaviour in the future.

Those who were already in a pension were asked whether or not the Budget reforms would make them more likely to increase their pension contributions.



If you combine those who are not planning on taking action with those who don't know, there is an undecided majority, which isn't surprising given the early stages we are in. However, there is clearly a significant minority of 29 per cent who have stated a willingness to increase their payments as a result.

In addition, a significantly higher proportion (36 per cent) of the 22-30 younger age group state that they might be more likely to increase their payments. While it is of course far too early to talk about hard evidence of changing behaviour, these early signs of the potential for more engagement with pensions and saving among the younger age group are encouraging.

It's fair to say that there is a mixed picture of the impact of the Budget reforms on engagement, though clearly engagement in pensions needs to increase to some degree for consumers to be able to make appropriate plans and choices for their retirement.

Likely consumer behaviour and preferences - evidence so far

In the light of the new freedoms, what do consumers say they want to do with their money at retirement? We go into this subject in a lot more detail in *The future of retirement: a consultation on investing for NEST's members in a new regulatory environment*.

Here we look at some new data from our research. In this we asked a representative sample of the population across all age groups to consider what they will most likely do when they retire, after they have built up a pension, and presented them with a number of options.

Imagine that when you retire, you have built up a pension and it is time to decide what to do with it. Which one of the following do you think you will be most likely to do?

Single most likely decision about what to do with retirement pot. (All age groups)

19%
Leave it invested where it is and take an income from it

16%
Convert all of it into a regular retirement income guaranteed for the rest of your life

7%
Take all of it out and do with it as you please

5%
Take all of it out and invest it in a way that gives you an income from it

19%
Convert some of it into a regular retirement income guaranteed for the rest of your life and invest the rest in a way that gives you an income from it

13%
Convert some of it into a regular retirement income guaranteed for the rest of your life and take the rest as cash, to do as you please

22%
Don't know

There are a number of things in particular to take from the research. 22 per cent simply don't know what they will do. This is slightly less for the older age group, though 19 per cent of them still do not know. Only a tiny minority say that they will take all of their money out, which is in line with previous qualitative research we've carried out among people approaching retirement.

It is noticeable that only a third of those who opt for an annuity-based option choose to have a full annuity. The rest are split between choosing some element of annuity and flexibility in either income or cash.

There are key differences between consumers as a whole and the group starting to approach retirement when faced with this set of choices. Fewer of those aged 51+ say they will leave their pension invested and take an income from it (14 per cent compared with 19 per cent on average) and more say they will convert some of it into a regular retirement income and take the rest as cash (22 per cent compared with 13 per cent on average).

The popularity of a combination of annuitising a proportion of their pension pot combined with some flexibility for the rest reflects our previous finding that people generally 'want to have it all'. From our qualitative research we have found that while respondents are largely pleased that they do not have to buy an annuity, in practice their desire for certainty results in a preference for some form of guaranteed income. We reported this finding in *The future of retirement: a consultation on investing for NEST's members in a new regulatory environment*.

Early engagement may improve confidence

As we noted in our consultation on the Budget reforms there is some evidence to suggest that financial literacy and confidence drive engagement in retirement generally.

Research with newly enrolled NEST members shows that those who have logged in to their online account feel more informed generally and are more positive on a number of different dimensions than those who have not. These include endorsing the principle of workplace pensions, feeling that they know more about pensions and feeling confident that they were right to stay enrolled.

It does not appear to be the case that those who are more positive about pension saving generally are more inclined to activate their accounts. We found few differences between those who have logged on and those who have not in terms of demographics, prior experience or understanding of pensions.

The research therefore suggests that encouraging the newly automatically enrolled to activate their accounts can have a positive impact on members' attitudes to pension saving in and of itself. While this does not indicate that members who have activated their account will regularly engage with it, it does suggest a positive orientation which pension providers could make the most of to keep retirement savings 'front of mind'. Our research also suggests that those who have activated their account are more likely to consider making increased contributions at some stage.

Conclusions

To sum up the picture for consumers, people are still broadly positive about auto enrolment. This is even the case among many of those who have opted out. Saving for retirement is still a high priority. However, while confidence in retirement provision might be improving slightly, it is not yet clear how the roll out of auto enrolment might impact attitudes and behaviour to retirement saving in the longer term.

For those newly automatically enrolled into a workplace pension, feeling reassured that this has happened doesn't necessarily translate into a desire to get more interested and engaged in practice. There are early signs that the Budget reforms, which bring forth the possibility of earlier access to funds, might be making younger people more interested in pensions. Are they helping to reposition 'pension saving' as saving in general for later life, which is more of a motivator than saving for 'retirement'?

In our consultation on the Budget reforms we talk in more detail about what people might want from support and guidance to assist them in their retirement planning. The challenge now is how pension providers, including NEST, should respond to these changes properly. This doesn't just mean providing a set of appropriate products for retirement. It also means giving consumers the opportunity to obtain the right level of information at the right time. The aim should be to help them make the best decisions on how to access their pension savings as they approach the later years of their working life.

How can pension providers encourage members to become sufficiently interested as they are accumulating their savings to make them more likely in the later years to engage with the question of how they are going to access their pots?

These are the big questions we and the rest of the industry will be grappling with in the months and years to come.

Employers

2014 - how did it go?

In last year's *NEST insight* we reviewed the experience of employers staging in the first 12 months of auto enrolment and discussed the challenges ahead. Just a few thousand of the largest employers had to comply in that first year. In 2014 perhaps 10 times as many employers were expected to stage - with almost 43,000 employers affected. The majority of these employers have fewer than 250 workers and were mainly due to stage in a four-month period between April and July.

Reflecting this large increase in the numbers meeting their staging dates, NEST experienced a substantial increase in the number of employers using the scheme. NEST now has around 11,000 participating employers and over 1.8 million members.

Capacity crunch?

12 months ago, NEST and the wider pensions industry were braced for the challenge of needing to help a large number of employers comply over a relatively short space of time. In last year's report we discussed a number of additional challenges, including how these employers were likely to have lower levels of pension provision in place and were likely to lack the knowledge and experience of the largest employers. We also highlighted how many may not have been planning to dedicate the same time and resources to their preparations that larger employers had. Our research suggested that most employers were looking to put in place straightforward and hassle-free solutions in order to comply and if they offered a scheme currently many were hoping to use this for auto enrolment.

Looking back over the last 12 months it seems the pensions industry, along with intermediaries such as payroll and advisory firms, have broadly managed to cope with this mass influx of employers. The much discussed 'capacity crunch' didn't quite materialise, although, as we noted earlier and discuss again later in this section, a noticeable proportion of employers using NEST this year had been turned away from another provider.

Preparing for auto enrolment

Although last year many, ourselves included, had been emphasising the need for employers to give themselves as long a lead time as possible to prepare, 2014 stagers typically spent much less time preparing than the largest employers. Various sources suggest that employers typically spent about three to six months preparing.

As we highlighted last year, unlike those large employers who staged first, these 2014 employers generally do not employ individuals with specific expertise on pensions. In research with employers using NEST we found that 44 per cent of employers had only one person in their organisation responsible for setting up and administering the NEST scheme. This reliance on one or two individuals is confirmed by qualitative research conducted by the Department of Work and Pensions (DWP) which found that often only one or two people would be involved in preparing for auto enrolment. Typically, these would be individuals who had responsibility for HR and/or finance, and, as employer size reduced, often someone less senior within the business.

Employers didn't necessarily develop formal project plans but rather had to fit preparations around their existing responsibilities. Not only was one person often responsible for doing everything required, these employers had much less internal and external involvement. Whereas almost all large employers sought professional advice and support, the DWP's research found only around half of the 2014 employers they spoke to used external help, often where they already had existing relationships. More specifically in our research with employers using NEST we found that only around a fifth had set up the scheme and/or were administering the scheme with the help of an intermediary.

These proportions may sound lower than previous predictions about the number of employers likely to seek support. However this is not necessarily because employers didn't look for help and support, just a reflection that they often made use of free or low-cost options such as the guidance available from TPR and the information and software available from payroll providers. Employers staging in 2014 usually paid for payroll software upgrades to enable them to manage auto enrolment tasks through their software, or their payroll was administered externally. However, there were a minority - often due to a desire to save costs and/or the small numbers of workers involved - who did not upgrade their payroll software and carried out tasks, such as worker assessments, using spreadsheets. Rarely did 2014 employers, whether or not they upgraded their software, incur substantial ad hoc costs. This contrasts greatly with the experience of employers staging in the first 12 months who often spent significant amounts to ensure they were prepared for auto enrolment.

Our own research with employers setting up with NEST indicates the significant role payroll has played in easing the process. 88 per cent of the employers we surveyed were using payroll software and almost universally they had bought an auto enrolment software upgrade and were using it to produce information for NEST. Not only did having access to payroll software help with certain elements of the process, but the DWP found that generally speaking the systems in place for storing worker data and the data itself was less complex than among larger employers. Consequently, even where some degree of data cleansing might have been required, employers generally didn't face the data challenges met by larger employers.

Choosing a provider

Many employers staging in 2014 continued to already have pension provision in place, although pension participation levels prior to auto enrolment tended to be lower than among larger employers. We noted last year that if employers already had a pension scheme with a reasonable proportion of their workforce enrolled, many hoped to simply use this existing scheme for auto enrolment. DWP's research would suggest that although this may have turned out to be the case for some, less than a third of the employers they interviewed ultimately used their existing scheme for auto enrolment. Many were either told or assumed that their existing provider would not accept them. Our research with our own customers certainly suggests a significant minority of employers were turned away from another provider - typically, but not always, their existing provider. Overall 35 per cent told us that during their preparations they had approached their existing provider or another provider but found that they were not willing to enrol their entire workforce.

For those not using their existing provider, the DWP found that master trusts were the most common choice for employers. For those that reviewed the market themselves, they tended to solely look at these schemes. This certainly chimes with the research we conducted following employers through the decision-making process, many of whom choose a scheme quickly with little or no review of alternatives.

NEST also found that compared to the first year of auto enrolment, when many employers were using the scheme alongside other provision, increasingly it is the sole scheme being used by employers. In our survey of April-July staging customers we found 84 per cent said that NEST was the only scheme they were using for auto enrolment purposes and for 57 per cent NEST was the only pension scheme they offered. The DWP's research indicates that this was the case with employers in general and not just NEST users - only a minority of 2014 employers they interviewed were using more than one pension scheme.

Communicating the reforms

When it came to communicating the reforms we found that the picture was mixed in terms of the amount of effort employers put into communicating the benefits of joining the pension scheme. 66 per cent of employers we surveyed said that workplace pensions were an important part of the overall package of workplace benefits offered to their workers, with only 13 per cent considering them not to be important. However, when we asked how much effort they put into promoting the scheme beyond their legal obligations only 48 per cent said they put in a little (34 per cent) or a lot of effort (14 per cent). A further 26 per cent hardly promoted it at all and 25 per cent said they did nothing to promote the scheme beyond their legal obligations.

Growing confidence

The evidence this year suggests that many employers have coped fairly well with the challenge of auto enrolment. It would seem that having fewer people involved and less time to dedicate to the process has resulted in employers focusing on the key tasks and getting them done as quickly as possible. There has been a tendency to get less bogged down in the detail, partly reflecting their less complex organisations but also a pragmatic reflection of the time and resource these employers were able to dedicate. This does, however, have its downsides. The DWP found there was a loss of momentum among some employers because of the reliance on one individual. There were also potential problems encountered by employers and their providers as a result of individuals not having a detailed understanding of auto enrolment.

That is not to say that employers haven't faced challenges and had queries along the way. It is, however, noticeable that employers' confidence seems to have increased as they moved through the process. Overall 74 per cent of the employers we surveyed said NEST was easy to manage despite only 25 per cent saying they were very confident from the start. 59 per cent said they were now very confident that they could administer NEST on their own without needing to ask for help. Indeed, 87 per cent of employers said they expect they will only occasionally, rarely, or indeed ever, need to contact NEST in the future. This increased confidence in their ability to administer auto enrolment on an on-going basis was also reflected in the DWP's research. Ultimately, many expected auto enrolment to just become another of their routine payroll tasks.

2015 and beyond

Almost 43,000 employers staged in 2014, but that's dwarfed by the number of employers staging over the next few years. Approximately 45,000 employers are expected to stage in 2015, while in 2016 and 2017 hundreds of thousands of employers are due to stage over each 12 month period. These employers present us with a new set of challenges for the years ahead.

- The sheer scale of employers set to stage on a monthly basis.
- The resources available to them are likely to be even more limited. Often just one individual will have to deal with everything to do with auto enrolment.
- They will have limited existing pension provision and experience. Many employers will not currently be offering a scheme and the knowledge and relevant experience of individuals involved will be variable.

Over the next few pages we go into a bit more detail on what we already know about these employers and discuss research NEST has conducted with small and micro employers, including with some who have already staged for various reasons.

The landscape

There are approximately 1.3 million employers with fewer than 50 workers likely to stage over the next few years. 84 per cent of these businesses employ fewer than 10 workers and in fact 64 per cent employ fewer than five workers.

Not only are these employers substantially smaller than those that have staged so far, workplace pension provision is also noticeably lower than among larger employers. 83 per cent of small and micro employers yet to stage either don't currently offer a workplace pension scheme or have a scheme with no members (typically a stakeholder scheme). This contrasts with the employers with 50 or more workers where the reverse was the case, with 83 per cent of employers having some form of pension provision in place prior to auto enrolment.

Business processes

In our report *Small and perfectly informed?*, published last year, we summarised research conducted by NEST looking at how small and micro businesses manage their business processes. Understanding how employers currently manage things such as their payroll systems helps highlight the potential challenges these employers might face when it comes to complying with auto enrolment.

In that report we highlighted how 55 per cent manage their payroll administration completely in house, with a further 17 per cent partially managing the payroll process in house and only 24 per cent completely outsourcing. We also talked about the types of payroll software employers are likely to use. By combining both these sets of information we can build a detailed picture of small and micro employers' current approach to payroll administration.

Payroll administration among small and micro employers

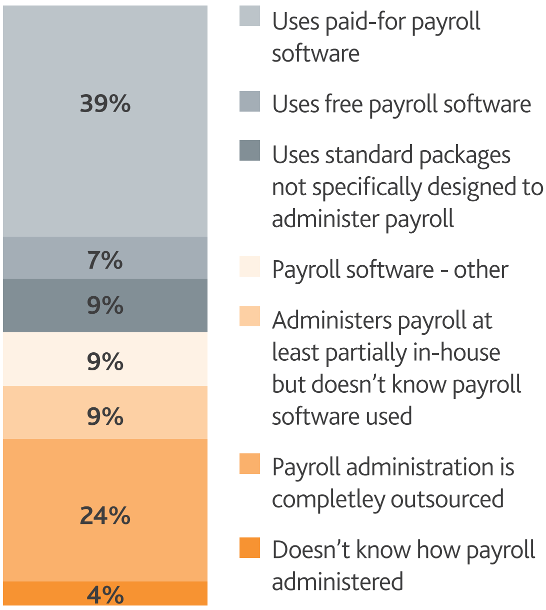


Chart percentages may not total 100 due to rounding

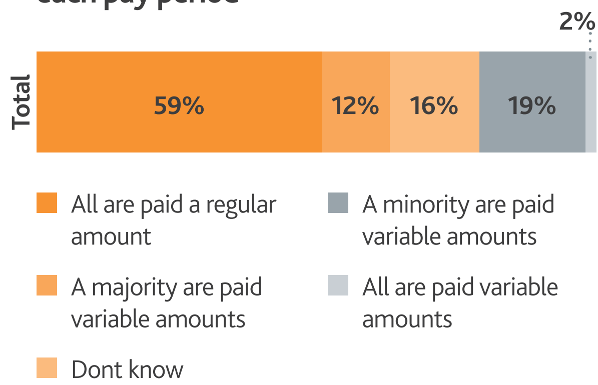
As can be seen above, a large proportion, but not all, of small and micro employers are likely to have access to payroll software which can be upgraded to help deal with auto enrolment. 39 per cent directly use a paid-for payroll package with a further 24 per cent completely outsourcing to a payroll administrator who is likely to have access to professional payroll software. As we have seen in 2014, payroll software has a key role to play in helping employers undertake certain tasks, and potentially make their life significantly easier.

There is, however, a minority of employers who currently don't use paid-for payroll software, with 7 per cent using free payroll software such as that available from HMRC to help with RTI. A further 9 per cent just use standard software packages, such as Excel, not specifically designed to administer payroll. This equates to around 200,000 employers who currently don't have access to software that could be upgraded to help with auto enrolment tasks.

The frequency with which employers pay their workers can have a significant impact on how difficult employers find certain auto enrolment-related administrative tasks. Auto enrolment requires employers to check the eligibility of their workers every pay period and make adjustments to their contributions based on the outcomes of these assessments. According to our research, 64 per cent of employers pay their workers monthly and 34 per cent pay their workers weekly. For those employers who have a relatively stable workforce to whom they pay regular amounts each pay period, this assessment process might not prove to be too problematic.

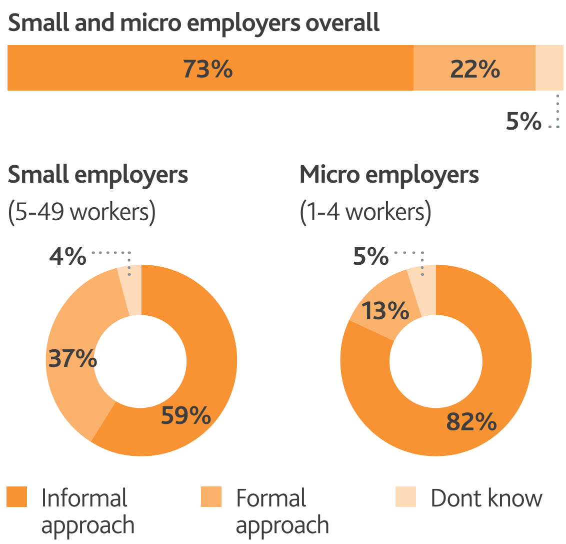
However, many employers may not have such a straightforward payroll, which may make the assessment process more difficult. In our research we found that only 51 per cent of small and micro employers pay all their workers a regular amount each pay period. Around a third of employers pay all or the majority of their workers variable amounts each pay period.

Whether small and micro employers pay their workers regular or variable amounts each pay period



Employers also will need to communicate these changes to their workers. Small and micro employers are noticeably less formal in their approach to communicating with staff. 73 per cent of employers describe their approach as informal. By looking at the chart below, you can see that micro employers are particularly likely to describe their approach as informal.

How small and micro employers would describe their HR, benefits and pensions communication approach



When asked which approaches they typically use to communicate with their workers about HR and benefits, employers responded that face-to-face communication is more popular than more formal methods.

91 per cent typically communicate face-to-face with workers about HR, staff benefits and pension related issues, and 61 per cent use team meetings. Only 40 per cent say they would typically use letters and 34 per cent would use emails.

This informal approach to communication is probably in large part a result of the fact that their small size makes it easier to have direct conversations with their workers. It may also reflect that many smaller employers don't have the structured approach to HR management that larger businesses do. In the *Small and perfectly informed?* report we noted that in order to ensure they comply with auto enrolment legislation employers may need to develop new and more formal ways of communicating.

As a pensions industry we also need to respond to the fact that employers are going to be increasingly likely to be discussing auto enrolment in a very informal manner with their workers. This might require different forms of communications tools being developed to help employers, who are not pensions experts, to 'chat' about auto enrolment to their workers with greater confidence.

Attitude, awareness and approach to reforms

Since its inception NEST, and its predecessor the Personal Accounts Delivery Authority (PADA), has conducted a significant amount of research into employers' attitudes and expectations in order to help us develop pension scheme processes that meet their needs.

In previous NEST research we have seen how small and micro employers tend to be less likely than larger employers to believe that pensions are a key benefit for their staff or that they have a responsibility to help their workers save for retirement. They're also more likely to lack confidence and knowledge when it comes to making decisions about pensions and be more daunted at the prospect of having to set up a pension scheme.

Overall 69 per cent of employers say they agree with the principle that every worker should have access to a workplace pension. Only 28 per cent actively disagree that they have a responsibility to help staff save for retirement.

We also asked those aware of auto enrolment about the extent to which they were confident they understood how the reforms would affect their business. It is evident that while the majority feel they have at least a good understanding, significant proportions don't really know what it will mean for them. We found that only 18 per cent completely understand how the new duties will affect their business, with a further 49 per cent saying they have a good understanding. The remaining 34 per cent either have no or very little understanding of what the reforms will mean.

TPR has been tracking in detail employers' awareness and understanding of the reforms and the latest research they have published provides an insight into small and micro employers' awareness and attitudes towards the reforms.

They found 85 per cent of micros and 91 per cent of small and micro employers staging are aware there have been changes introduced to workplace pensions. While it is positive that awareness is so high, TPR found that a noticeably smaller proportion understand all of the key elements of the reforms.

63 per cent of small employers and 49 per cent of micros understand employers have to do all of the following, with lowest levels of awareness tending to be around the need to register their compliance with TPR:

- to provide a pension for auto enrolment
- automatically enrol eligible UK workers
- contribute to their workers' pension
- communicate to UK workers on an individual basis
- register with an appropriate government body (TPR).

It is, however, worth noting that TPR's research suggests that we can expect understanding levels to increase. Its regular tracking survey typically finds understanding levels to be 80-90 per cent two months prior to the employer's staging date. This suggests that understanding levels should hopefully increase as small and micro employers near their staging date. If they do remain lower, however, this could mean there are very significant volumes of employers unclear about their responsibilities as they approach their staging date.

TPR's research suggests that the majority of small and micro employers are broadly supportive of auto enrolment. 86 per cent of small and 76 per cent of micro employers think auto enrolment is in principle a good idea. Similar proportions, 81 per cent of small and 74 per cent of micro employers, think that they will be able to deal with the administration demands. Slightly lower proportions think that it will be easy to comply with (70 per cent of small and 66 per cent of micro employers) and easy to select a pension scheme (51 per cent of small and 53 per cent of micro employers).

Although TPR's research suggests many believe it will be fairly easy to comply with their duties, when NEST has asked employers to what extent they're concerned about various elements of the auto enrolment process, a slightly different picture emerges. Relatively similar proportions are concerned about ensuring compliance and about the amount of time they will have to dedicate to this, initially and on an on-going basis. They are least likely to be concerned about communicating about the reforms to their workers, perhaps reflecting the point made earlier about smaller employers' more informal approach to communication with their workers.

Although between 4 and 5 out of 10 employers seem to be worried about each element, when you ask which one of these factors they were most concerned about, two factors, compliance (30 per cent) and administration time (25 per cent), emerge as the key concerns. These factors were cited more than twice as often as the next most cited factor, preparation time (11 per cent).

This concern about getting it right and the amount of time it might take is perhaps not surprising, given that we know many of these employers will not have the expertise or resources available to them of larger employers.

How concerned small and micro employers are about different elements of auto enrolment

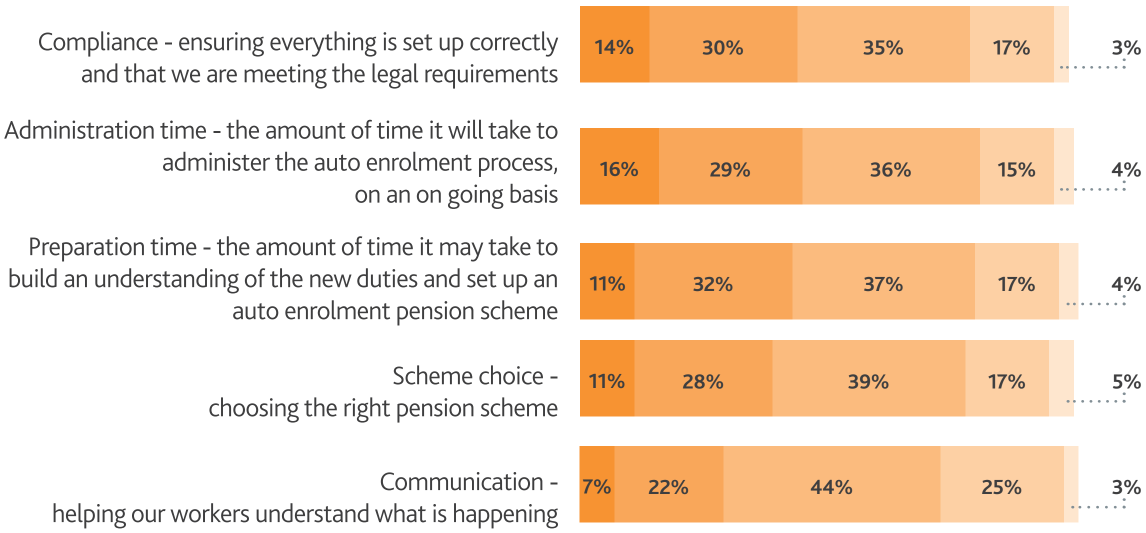


Chart percentages may not total 100 due to rounding

In our *Small and perfectly informed?* report we highlighted how the majority of small and micro employers expect to turn to someone externally for help and guidance with auto enrolment, most commonly accountants and IFAs. TPR's research presents a similar picture with 80 per cent of small and 64 per cent of micro employers having already asked or planning to ask for help. Similarly to our research they also found that accountants are the most likely organisation small and micro employers expect to turn to, followed by IFAs. Interestingly both NEST and TPR found only a small proportion expect to turn to their payroll provider, even though we have found that in reality many employers who staged in 2014 found payroll software providers to be a key information source. This may point towards a lack of understanding about how to approach auto enrolment.

Experience of small and micro employers that have staged

Whilst the vast majority of small and micro employers haven't yet staged, NEST has been able to learn from the experience of some small and micro employers who have. We conducted a number of in-depth interviews with employers who staged in July 2014 with fewer than 50 workers. They hadn't chosen to bring their staging date forward, but for a variety of different reasons they had been allocated a July staging date. In many cases these employers had a small permanent workforce and larger casual workforce. Sometimes company size had reduced since their staging date was set.

Our research suggests that predicting how small and micro employers might cope with auto enrolment isn't easy. Employer size didn't seem to be the main driver - confidence and capability did not necessarily reduce in line with employer size among those we surveyed. For most of the employers we interviewed there was just one individual involved in the process and how they coped depended on a number of different, interrelated factors.

- **An individual's previous pensions experience.** As you might expect the majority of employers we interviewed didn't have a pension scheme prior to auto enrolment and these employers were more likely to find the process of auto enrolment daunting. Some individuals, however, may have experience in a previous role even if their current employer didn't offer a scheme.
- **Their attitude to having to handle auto enrolment.** Those that were reluctant to take on this role to start with were more likely to make mistakes, and might dedicate less time to their preparations.
- **How much of their day-to-day role was dedicated to payroll or pensions.** The individuals involved often tended to have a variety of different roles they had to fulfil, perhaps being the owner of the business or fulfilling an administration function that could range across a number of different areas. Those individuals whose job was more specifically related to administering payroll or who had a background in payroll administration tended to find the process less burdensome.
- **Whether they were working full or part time.** Many of the individuals we interviewed were working part time, so along with their existing responsibilities they had to fit the setting up and administration of auto enrolment into two or three days a week. This could prove challenging.
- **The number of workers to enrol.** Those who had fewer workers to enrol, meaning that some of the tasks could be undertaken manually, if desired, could find the process easier.

Preparation time and information sources

Only a few of the small employers we interviewed started preparing for auto enrolment a year in advance of their staging date, the TPR letter being the trigger to start researching. The timeline for more active preparations seemed to be broadly similar to other employers staging in 2014. The majority started general research three to six months in advance of their staging date with the intensive activity tending to take place in the one to two months prior to staging.

All the employers we spoke to made use of the various free information sources available. Nearly everyone consulted TPR and relevant government websites. Payroll software providers were also one of the earliest and most influential points of contact about auto enrolment and often prompted employers to start preparations. Payroll software providers have been proactive about selling their auto enrolment modules to clients. A significant number of the employers we interviewed had attended a seminar offered by payroll software providers and they often found these useful for building up general knowledge of auto enrolment.

Employers got free advice wherever possible, and, while most felt they would benefit from tailored advice, few felt able to pay for ongoing support throughout their preparations. Where employers had existing relationships with someone with expertise they sought their advice - mostly from IFAs but sometimes accountants.

Choice of provider

Our research was only with small and micro employers using NEST, but, similarly to DWP's research with employers using a variety of different providers, we found that employers were reluctant to spend much time and effort choosing a provider. Some had been turned down or assumed they would be turned down by other providers. The majority had very quickly decided on NEST and had either not considered any alternative or had only reviewed the other main master trusts.

Having decided to use NEST, employers tended to find setting up the scheme straightforward, doing this in one sitting. We found employers can do this quite early on in their preparations and then take a break before returning to the task closer to their staging date. There was a recognition that some tasks, such as assessing their workers, couldn't be done too far in advance anyway. When it did come to doing the assessment, most of the employers we interviewed used payroll software and consequently found the assessment process very easy as the software just did it for them. A few assessed their workforce without the help of software, and whether they found it difficult or not depended on their general payroll or finance experience as well as the number of workers they had to assess.

Administration of the scheme

Although the process of establishing the scheme and assessing their workforce was relatively easy for most, some employers found the first round of enrolling workers and submitting contributions more challenging. For some this was when their lack of payroll and pensions expertise began to take effect. They were also under more time pressure to complete tasks and had to dedicate perhaps more time to completing tasks than they would have liked to. Employers more used to dealing with payroll and accounting files were often confident to try and resolve any problems they encountered themselves. Those less confident tended to need to ask for help, contacting NEST or their payroll provider for help and sometimes both.

The reasons employers chose to contact NEST or their software provider tended to evolve as they progressed through the various stages of their preparation. In the earlier stages some employers would make contact asking for information on the auto enrolment process more generally, but also for reassurance that they were doing everything correctly or had done everything they needed to do. By the time they started enrolling workers, the reasons for making contact, not surprisingly, tended to be more specific process-related questions.

At the time we interviewed these employers, most had only completed one or two cycles of contributions and enrolments. Most employers we spoke to described issues they experienced in the first month of enrolments and contributions as 'teething' problems which they expected to be ironed out as they got used to the process.

So what does all this mean for the next stages of auto enrolment?

The research and analysis summarised in this chapter provides valuable insight into how small and micro employers will approach auto enrolment. It also suggests a number of different challenges and opportunities over the next few years.

In future, employers may not spend long reviewing and choosing a scheme. Where they do still have pension provision in place, some are likely to continue to want to extend this provision, but not all will be able to do so. Raising employers' awareness of the schemes available to them will become increasingly important. It will also be critical to highlight to employers the features they should be looking for in a pension scheme, such as those highlighted by TPR through initiatives such as their code of practice for DC trust-based pension schemes and the assurance framework for master trusts.

2 to 3 months is likely to be the usual timespan for intensive preparation for most employers. Employers staging last year have typically coped with this sort of time frame, but the period around the first time they enrol workers and submit contributions can be quite intensive. Payroll software has significantly helped employers with many of the tasks they need to undertake, but there are still some challenges in terms of making the process even smoother.

Previously when we talked about how employers will cope with auto enrolment, there were potentially a number of different individuals involved whereas for small and micro employers just one individual may deal with everything. The level of confidence, knowledge, and attitude of this individual, along with the time they are able to dedicate to the task, will significantly impact how successfully each individual employer copes with complying. It is also worth noting that among the largest employers, individuals tasked with introducing auto enrolment were often not directly affected as they were already members of a workplace pension scheme. Among smaller employers this may no longer be the case. Auto enrolment therefore will also increasingly have a personal impact, with individuals potentially having to enrol themselves in the chosen scheme as well as other workers. This may mean that the distinction between employer and worker becomes less clear-cut, and when they review the scheme choice or talk about auto enrolment to their workers it has a personal dimension to it alongside the organisational perspective.

Small and micro employers are likely to communicate differently about the reforms. Although employers will continue to have formal requirements to communicate the reforms to their workers in writing, they are unlikely to develop extensive communication programmes as we saw among some of the largest employers. They are, however, more likely to be involved in informal conversations about the reforms. This presents both risks, in the form of employers feeling uncomfortable talking about this topic, and opportunities in that those direct conversations have the potential to positively reinforce the value of being enrolled.

Employers will continue to look for help and guidance to help them navigate their way through the process of complying and some will seek reassurance they have got it right. For some employers this will merely be reflected in a reliance on the free sources of information available, but others will turn for help to various different business support organisations. Providing appropriate online resources that can help employers build their knowledge and understanding is going to be the challenge for those organisations employers are likely to turn to. We are also likely to see increasing numbers of employers who undertake the whole task without external support and for these types of employer access to online resources will be particularly important. Conversely, there is also the potential for an increase in the proportion of employers who want to pass on as much as the task as possible to someone external such as their adviser, accountant, bookkeeper, or payroll professional.

Intermediaries

Intermediaries have played a vital role in the success of auto enrolment so far. As auto enrolment continues to roll out and the volume of employers reaching their staging date rises, we expect to see the role of intermediaries become even more essential. In 2015 around 45,000 employers will reach their staging date, which pales in comparison to the half a million that come under the duties in 2016. To understand the role of the intermediary community it is important to first understand employers' perceptions, readiness and expectations. Any research into intermediary readiness and proposition needs to be considered against the backdrop of employer demand and expectation.

Employer expectations

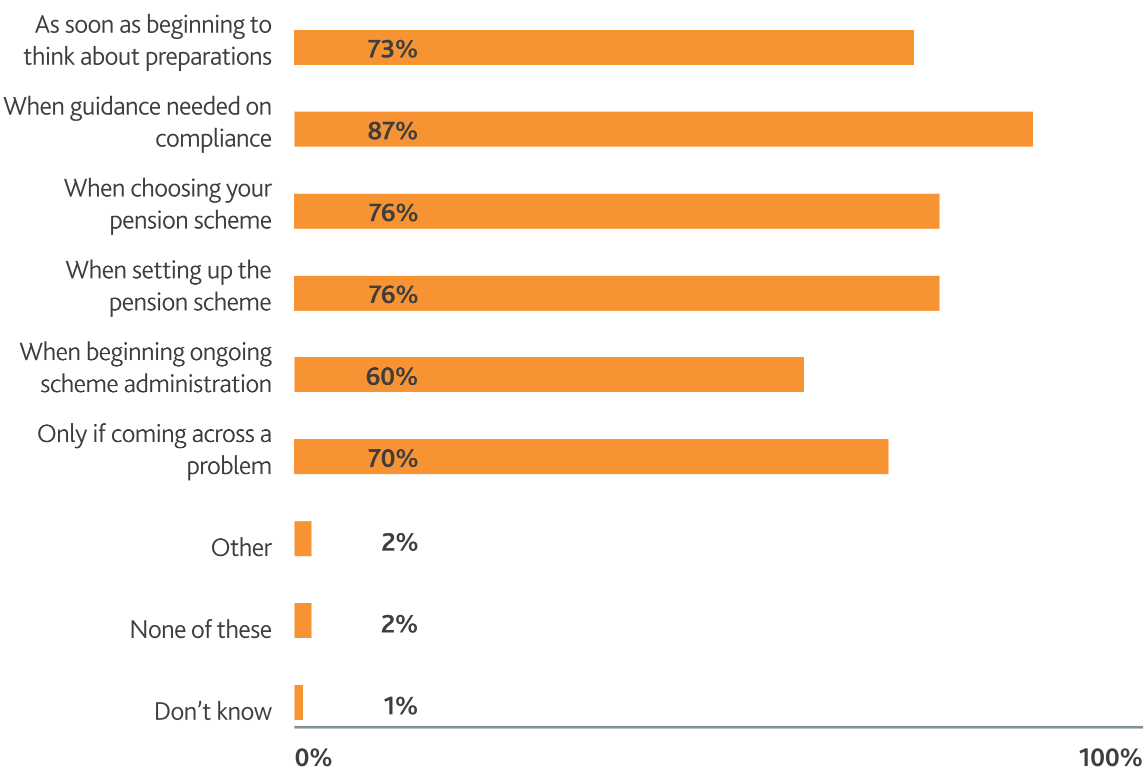
As explored in the employer section of this report, there is a high level of demand for support on the intermediary community from employers. Our research suggests 74 per cent of small and micro employers will turn to an intermediary for support with auto enrolment.

We know from the employer research that compliance is the main concern for employers, and that employers are most likely to seek external help with ensuring compliance. Although compliance is the priority for employers, a significant number are also likely to want help with ongoing administration and setting up a scheme.

The lowest level of support is required for help deciding on a scheme, implying that employers are more confident about this aspect. 35 per cent of NEST's customers said that providers they approached were unwilling to enrol their entire workforce and 40 per cent of independent financial advisers (IFAs) claimed that pension providers had declined to write schemes for one or more of their business customers. A third of this group went so far as to say that it happened either 'frequently' or 'all the time'. With this in mind, employers may want to allow more time to make their decisions on which provider to use.

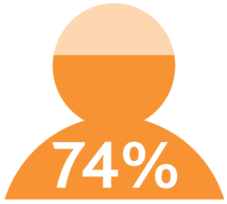
In the same research, expectations of the need for support when managing compliance is a leading factor in deciding when to turn to an intermediary. Of those who have indicated they will be seeking external help, most expect to enlist help when looking into compliance with the regulations (87 per cent). Although compliance is the leading trigger for seeking external help, this doesn't mean that intermediaries won't be required from the beginning of their auto enrolment project. 73 per cent of those seeking external support expect help right from the start of their preparations.

Auto enrolment preparation stages when external support expected



Research into the intermediary community in 2015 and beyond is regularly broken down into three main subgroups: IFAs, payroll professionals and accountants. By doing so, we are able to see the different approaches and behaviours and gain greater insight into their levels of engagement. Understanding the behaviours of intermediary subgroups becomes particularly relevant when combined with employer research into expectations of support. When asked, employers are clear about who in the intermediary community they will be turning to for support. Among small and micro employers, a majority of whom will be staging in 2015 and beyond, there is a clear frontrunner, accountants. Our research found that 59 per cent of employers indicate that they are likely to ask an accountant for help and guidance while preparing for auto enrolment. This becomes even greater among employers with one to four workers, with 70 per cent indicating that they intend to turn to an accountant. IFAs and payroll providers are the next most likely source of support although the levels are significantly lower.

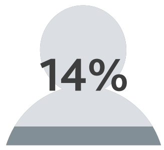
Who employers will turn to for help and guidance in their preparations for auto enrolment



of employers expect to turn to someone externally such as an accountant, IFA or payroll provider

The most common sources of support:

say they intend to look to an accountant



say they intend to look to an IFA

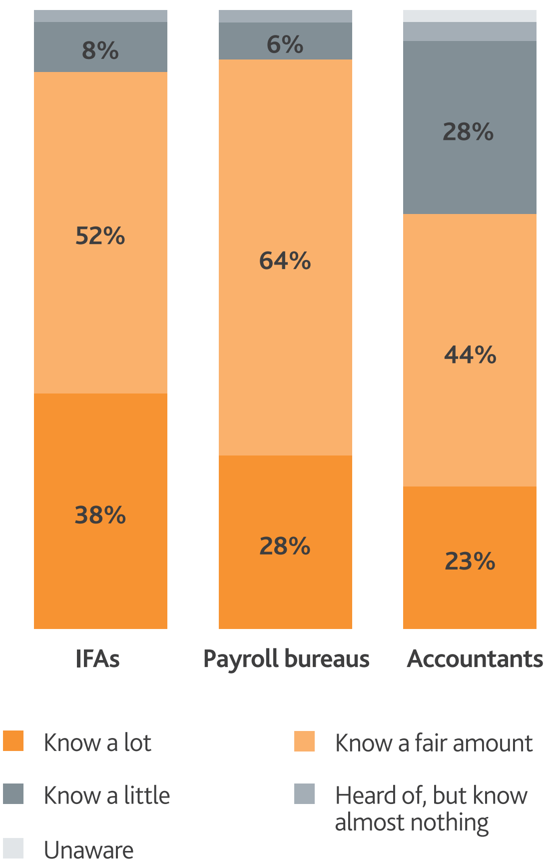
Intermediary preparedness

The subgroups of the intermediary community are not homogenous in their approach. There are differences in knowledge, readiness and activity.

Intermediary knowledge

The first divergence among the intermediary community is around knowledge of the reforms. Accountants have far less knowledge than IFAs and payroll professionals when it comes to auto enrolment. According to NEST research, 90 per cent of IFAs and 92 per cent of payroll bureaus claim to know a lot or a fair amount compared to 67 per cent of accountants.

Level of knowledge about auto enrolment



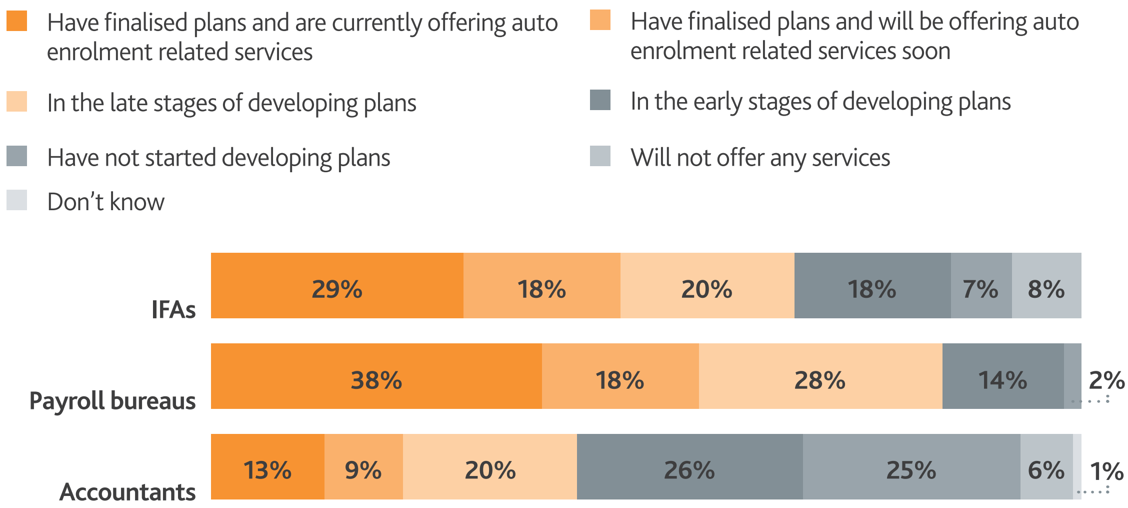
In exploring the key elements of auto enrolment, TPR research carried out in 2014 into intermediaries found that most intermediaries are aware that an employer will need to complete a declaration of compliance with the appropriate government body. Again we observed a divergence, with 40 per cent of accountants compared to 87 per cent of IFAs being aware they needed to complete this with the regulator.

Further exploration into the key elements of the duties found that IFAs and payroll administrators are more likely to be aware of their clients' staging dates while 23 per cent of accountants know theirs, according to TPR research. So a picture is emerging where we see that accountants are a key delivery partner in auto enrolment but they are the least engaged of the intermediary groups.

Intermediary readiness

Building an auto enrolment proposition is a key indicator of the readiness of the intermediary groups to help clients meet their duties. NEST research conducted in 2014 found that payroll bureaus (56 per cent) and IFAs (46 per cent) are much more advanced in terms of finalising their auto enrolment proposition than accountants (22 per cent). This research highlighted that 31 per cent of accountants either haven't started developing any plans or have no intention to offer any service.

Level of preparedness for auto enrolment



TPR research further highlights this variance by examining the likelihood of the subgroups to act on behalf of their clients or provide technical support. IFAs (79 per cent) and payroll professionals (66 per cent) are most likely with 48 per cent of accountants claiming the same.

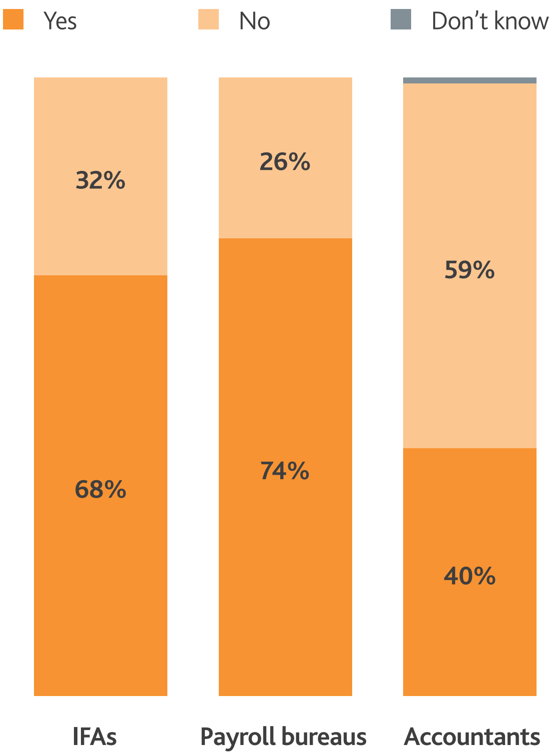
This may be motivated by a lack of knowledge about the implications for their business, with NEST research finding that almost all payroll bureaus (96 per cent) and IFAs (88 per cent) compared to 67 per cent of accountants have considered what impact auto enrolment will have on their business.

Already active

Whether they are up and running is the third main divergence among intermediaries. Both NEST and TPR research has found that experience of delivering auto enrolment services to employers varies among the subgroups.

In separate studies, both NEST and TPR found that around two thirds of IFAs and a majority of payroll bureaus have started to help support employers with auto enrolment. Both research reports found that the accountancy community are less likely to be offering support to employers, with NEST finding that only 40 per cent of accountants have helped employers so far.

Whether intermediaries have started to support employers with auto enrolment



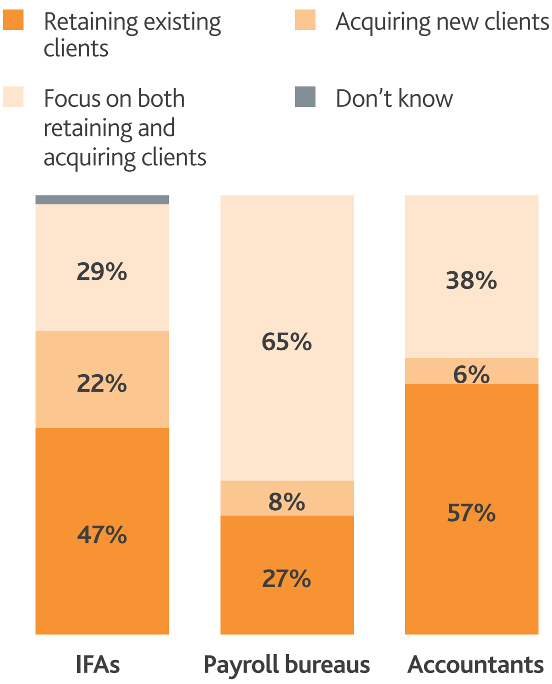
Divergence in context

NEST and TPR research clearly shows that IFAs and payroll bureaus have higher levels of knowledge and more developed plans when it comes to auto enrolment than the accountancy sector. There are a number of possible contributing factors to the varying approaches to auto enrolment among the intermediary community.

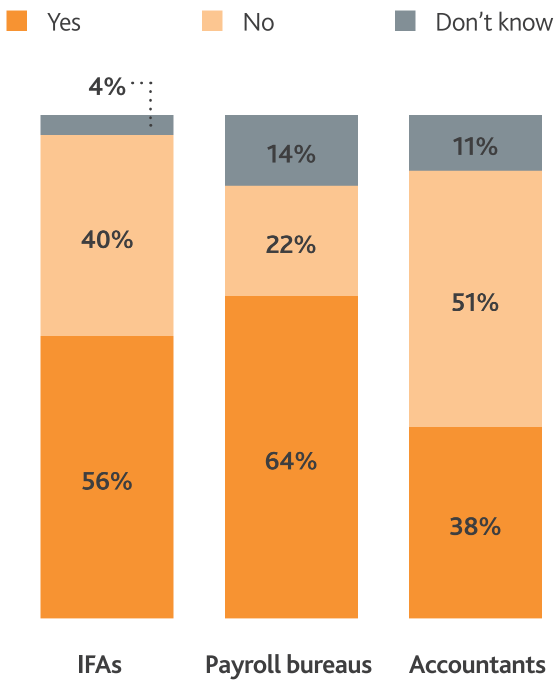
Retention versus acquisition

When exploring the rationale for offering auto enrolment services, strategies vary. Most accountants' main priority is to retain existing business (57 per cent), whereas most payroll bureaus (73 per cent) see a significant opportunity to acquire new clients.

Whether developing auto enrolment services will be focused on retaining existing clients or acquiring new clients



Whether intermediaries are expecting an increase in business customers because of auto enrolment



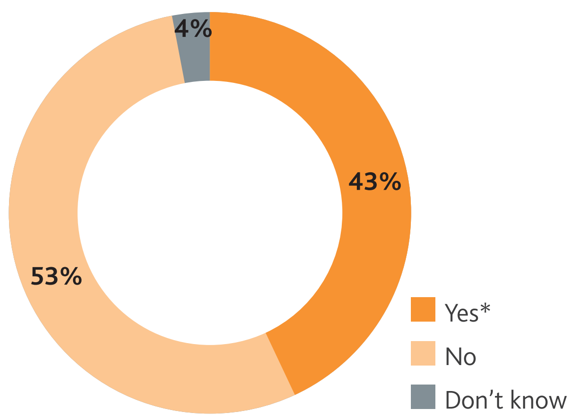
New ball game

The staging profile for auto enrolment means that 2015 is the first year of small and micro employers reaching their staging date. Previously large and medium-sized employers were impacted. Larger employers were more likely to turn to EBCs, IFAs and payroll bureaus for support with auto enrolment. Smaller employers are less likely to turn to these types of intermediaries and instead plan to talk to their accountant. In fact, on average around 90 per cent of accountants' clients employ fewer than 50 workers. As a result, IFA s and payroll bureaus have been in the auto enrolment market for longer than accountants, giving them a head start on knowledge, readiness and activity.

Working together

There is some evidence to suggest that accountants and IFAs are working together to deliver an auto enrolment solution, with 43 per cent of accountants indicating they are offering services in conjunction with an IFA.

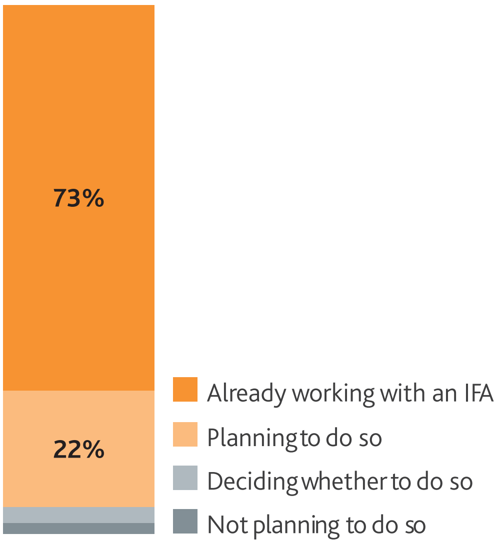
Whether offering any services in conjunction with an IFA



*Yes: 1-4 partners: 25%, 5+ partners: 56%

Of that group, 73 per cent are already working with an IFA to offer an auto enrolment solution and a further 22 per cent are planning on doing so.

Whether accountants are working with an IFA on auto enrolment



Conclusions

Although employers will aim for free advice where possible, 74 per cent intend to turn to an intermediary for help. The most common source of support is likely to be accountants. Although more employers may decide to deliver auto enrolment in-house, with 45,000 employers staging in 2015 and over half a million in 2016 the size of the market looking for help is likely to be large.

NEST research shows that employers' biggest concern and the biggest driver for support is compliance, followed by ongoing administration. Interestingly, choosing a provider is low down the list of employers' concerns, despite both employers and IFAs reporting that pension providers are turning down schemes.

Accountants are 'new recruits' to the auto enrolment cause. Although a common source of general business support, many of their employer clients haven't staged yet. They are likely to be the most 'in demand' of the intermediary community in 2015, primarily because they already support this size of employer. Despite this, many accountants haven't finalised their propositions. They seem less proactive in their pursuit of the auto enrolment market, seeing it as retention activity more than acquisition. A majority don't expect to see an increase in business as a result of auto enrolment. Hearing the experiences of IFAs and payroll professionals may, however, change their mind.

Case study

Laurence Sanderson

Head of auto enrolment and independent financial consultant
Sterling & Law

Our business model is to offer corporate clients a range of services and fee structures depending on their own individual needs. One of the key points we have learnt about delivering an auto enrolment solution is that employers do not all fit into one box. Every employer is different and requires advice tailored to their individual needs. It is therefore essential to have the flexibility in our proposition to ensure that we provide the best possible client outcomes.

> "Auto enrolment has presented us with a unique opportunity to increase new business and to develop key relationships with accountants, payroll providers and employers"

Our immediate goal was to establish strategic relationships with accountants who operate payroll on behalf of their clients. We have recently formalised a strategic partnership with THP Chartered Accountants, a top 100 accountancy practice with multiple offices and a large, established payroll bureau. For the last six months we have been working closely with THP as they develop a fully integrated, state-of-the-art auto enrolment payroll solution for their 600 business clients, which is cost effective, efficient and easy to use.

We are witnessing significant growth in other areas of corporate and individual advice as a direct result of auto enrolment. Many of the employers we are dealing with have never accessed financial advice before. We now have unprecedented access to business owners and workers across a wide range of advice areas. It is these additional advice services that will help us to engage with employers and workers to understand the importance of financial planning.

Over the longer term, we will see increased activity - many employers will be reviewing the decisions they made when they initially staged. There will also be an ongoing opportunity to assist new start-up companies meet their auto enrolment duties.

What does good look like?

Each year we ask organisations representing consumers, businesses, intermediaries and pension providers for their views on what good looks like for auto enrolment in the year ahead, as well as setting out what we think.

Age UK

We are pleased that auto enrolment continues to engage increasing numbers of people in pension saving, but this encouraging start could be derailed if things go wrong when people come to draw their savings.

Following the 2014 Budget changes, it's clear that 2015 is going to be a year of huge upheaval, and it is important that people who have been automatically enrolled and are at or approaching retirement - the first generation of savers powered by inertia - are not let down by a lack of support as they come to access their money, from the government or the industry. If people end up making bad decisions, this could set a bad precedent and discourage future saving.

Naturally we hope opt-out rates will continue to remain low as auto enrolment extends to smaller employers, and we would also like to see a focus on encouraging older workers to save.

The over 50s have a higher opt-out rate than younger age groups. For example, NEST data released in October 2014 shows that their opt-out rate rises with age, reaching 28 per cent for those aged 60-65, and 13 per cent for those aged 50-59. This is compared to just 5 per cent for those aged 20-29.

While this may be rational for some, others might be missing out on a much-needed opportunity to top up their retirement income. We would like to see more focus on engaging the over 50s, and hope that for many the budget reforms will provide an incentive to save.

Finally, we'd like the government do more to include lower earners in auto enrolment. We believe that freezing the threshold at £10,000 doesn't go far enough and that in 2015 there should be a commitment to lower it to the National Insurance Primary Threshold level, set at £7,956 p.a in 2014/15. This would automatically enrol significant numbers of lower earners and people who hold more than one part-time job, and who are at present excluded.

Christopher Brooks, senior policy adviser, Age UK

Association of British Insurers (ABI)

A friend living in Shanghai excitedly quoted the Chinese almanac in her Christmas greetings. 2015 is the Year of the Wood Goat - 'alert and sure-footed, the goat creatively and intelligently navigates life's changing landscape. Though capable of locking horns, the goat would rather leap over obstacles and restore balance through calm mindfulness'. It's considered to be a particularly propitious sign.

The pensions industry could certainly do with favourable stars to achieve success next year, as it has to deliver a whole raft of new pension policy initiatives from last year's bumper crop, and begin working with a new administration after the general election. Success for me therefore has two parts: finishing what we started - and through this process build greater trust and confidence in the industry - and persuading any new administration to build cross-party consensus before forging ahead with the next round of major policy changes.

Finishing what we started will be a formidable undertaking. The biggest implementation task relates to the new pension freedoms from next April, which is of course also heavily dependent on the government's delivery of the guidance service with its partners, Citizens Advice and The Pensions Advisory Service.

Our vision for the new freedoms is that savers using the guidance find it a useful eye-opener to the factors they need to consider in retirement planning, and that they feel more informed and confident in making choices about what to do with their pot. Savers are clear that the freedoms are not about accessing their retirement savings at age 55, but about having more flexibility to adapt pension income to the more flexible nature of retirement and their individual requirements.

For their part, providers have clarity about the conduct rules governing their communications with customers in good time before the reforms kick in from next April, and their communications integrate seamlessly with the pensions guidance.

2015 is also the year for implementing the Department for Work and Pensions (DWP's) charge control measures as well as the new independent governance committees. We want to see the independent governance committees successfully establish themselves as the trusted guardians of value for money for pension savers with providers' support, starting their work with addressing value for money in the legacy pensions analysed in the Independent Project Board's audit published just before Christmas.

In parallel with these implementation challenges, providers will of course continue the process of automatically enrolling thousands of new savers. Success here will be that low opt-out rates continue even as we progress to the smaller employers.

We would like to see all this implementation work build greater trust and confidence in pension savings.

While many may like a new government to draw breath before embarking on the next round of pension policy changes, this is likely to be wishful thinking. For example, manifestos will inevitably tackle pensions tax relief, and any changes beyond changing annual or lifetime allowances will have profound implications for tax more generally, and for the architecture of pension. The ABI is open to the debate, but we believe it is crucial that any changes are pursued on the basis of cross-party consensus to reach a stable settlement.

Let's hope the auspicious Year of the Wood Goat will indeed allow the industry to work through these challenges with creativity, deftness and agility.

Yvonne Braun, head of savings, retirement and social care, ABI

Association of Professional Financial Advisers (APFA)

The pension flexibility coming in April is the obvious place to start. The timetable has put great pressure on the ability to deliver, so for April, 'good' is an effective and robust guidance service for those that need it. It does not have to be perfect and it won't be possible to incorporate some of the additional good ideas. That it can cope with demand and point people in the right direction of further help will be sufficient (for many, to a financial adviser, but not for all). The guidance service can then be developed further, such as with the development of a pension passport that contains all a retiree's financial information. An effective handoff so consumers have the right help in making a choice will be critical for success and to ensure this happens, the regulator will need to monitor the actions consumers take and whether they are actively considering their options or drifting into defaults. I am certain that we won't get it right first time, but patience and adjustment will be needed to ensure that consumers get good value for money in their retirement options.

Auto enrolment will begin to move to its most challenging phase as the really small companies have to prepare for staging in 2016, including APFA. Many will look to financial advisers to help. The challenge will be finding cost effective solutions for smaller companies. I would hope that firms prepare early to ensure there is time to sort out unforeseen problems, my concern is that warning letters will be ignored until very late in the day.

Everyone who works in pensions knows that further down the track, the savings rate needs to rise from 8 per cent. This will be a challenge for the new government after the general election in May. Whoever wins, I think starting the ball rolling early to consider the problem and building a cross-party consensus will be important. If the next government serves a full term it will last to 2020. In my view, a clear roadmap for the future will be overdue by then and building a consensus will be easier in the first half of the government's term than in the run up to the next election.

Lastly, I think that with enough already planned for the sector, no significant new initiatives from the powers that be would certainly help everyone do what they already have to do in 2015.

Chris Hannant, director general, APFA

Confederation of British Industry (CBI)

2015 will be the year of small business, but given the range of pension policy changes over the last 12 months it will also be the year of meeting legislative deadlines.

With so much going on in the pensions arena at the moment and a general election on the horizon, 'good' in 2015 would be focus by government and the industry on delivery and implementation both of auto enrolment and the new regulatory requirements in time for April. New policy at this stage in the roll-out schedule risks destabilising the regime, which will not be good for savers or the industry.

The first priority for the year ahead is supporting smaller businesses in their preparations to stage. The past few years have seen good progress on the roll-out of auto enrolment, but the key challenge of the regime was always helping smaller employers through the process.

CBI research shows a gap - albeit closing - between awareness and understanding among businesses, but smaller firms especially, of their auto enrolment duties. The Pensions Regulator has done great work to help employers, but we all have a responsibility to ensure that good progress continues. And for the first time in the schedule larger businesses will be re-enrolling some of their staff at the same time smaller businesses start to. In short, this means there is much more to do to support businesses of all sizes over the next few years.

The second priority is ensuring the industry can deliver the regulatory changes necessary by April 2015. Businesses share the sentiment behind these reforms - achieving good member outcomes is important - but the scale of change cannot be underestimated. It ranges from charge cap compliant default arrangements, implementing governance requirements, signposting to the new guidance service and developing new products in wake of the new retirement income flexibilities announced at the Budget 2014. Employers need time to understand what the changes mean for their business and their employees, and then time to enact change where applicable. Further change on top of this in 2015 would put business and the industry under significant strain, which could put the quest to secure good member outcomes at risk. Stability is key going forward.

The next step once these priorities have been achieved is letting change bed in and monitoring any impacts. This does not mean that there isn't more to do, but good policy is rooted in an evidence-based, long-term and considered approach with consensus from all major stakeholders - which is why auto enrolment as a policy has been so successful. The CBI will be looking to the next government, whatever its colour, to take this on board.

Katie Dash, policy adviser, employment and skills, CBI

The Chartered Institute of Payroll Professionals (CIPP)

2014 has proved another challenging year with all stakeholders encouraging small and medium sized enterprises (SMEs) to engage with pensions and their auto enrolment duties. However, research carried out by NEST and also TPR in 2014 does offer some degree of confidence that SMEs are listening and starting to engage in pensions. There is a responsibility for those providing a payroll service to these employers, to help them understand what their obligations are but more importantly advise them what they will do to help them, if anything! There are of course IFAs willing to offer pensions advice and this might be the right course of action for a business when looking to source a workplace pension, but I would encourage all businesses to also speak to their payroll service provider and/or payroll software provider to understand what services and IT tools will be available to support them through this process.

The CIPP conducted research jointly with Payroll World and published its report on lessons learned in respect of auto enrolment. Based on these findings and anecdotal evidence from the many face to face meetings the policy team has held, the CIPP therefore believes good is:

- Evidence that SMEs are planning for auto enrolment - not just an awareness they must do something, but have a plan in place.
- Payroll service providers, especially bookkeepers and accountants are advising their clients what they will and won't do for them in respect of auto enrolment.
- The pensions/insurance industry are providing competitive packages to support SMEs, with sound pension schemes for their employees regardless of size.
- The pensions/insurance industry and the payroll industry continuing to work together to provide a smooth interface of data from employers to the pension scheme providers.
- All stakeholders continuing to look for simplification measures to support auto enrolment into the future.

Karen Thomson, associate director of policy and research, CIPP

Federation of Small Businesses (FSB)

2015 is a 'make or break' year for workplace pensions. Tens of thousands of small and micro businesses will begin the task of preparing for auto enrolment ahead of their respective staging dates, with the bulk of employers staging between January next year and April 2017.

The sheer volume of businesses staging next year presents a major challenge. Most of the owners of these companies will not be pension experts or employ in-house HR personnel. Many, though not all, will have some knowledge of auto enrolment, but few will know precisely what they need to do to comply.

2015 needs to be the year where government and the industry focus their collective efforts on small and micro business. Further work is needed to improve understanding of auto enrolment among micro business owners, and make it easier for these businesses to identify and select a qualifying scheme open to them. Small and micro firms will want a low cost solution that entails minimal administrative hassle, while providing their staff with a good quality pension.

The FSB has established its own scheme with Scottish Widows to assist our members. We are also working closely with The Pensions Regulator and the major providers to make sure that the auto enrolment journey is as simple and clear as possible for micro firms. To support this, the payroll industry, accountancy bodies and other intermediaries should all be focusing on providing products and services that are 'micro' friendly. This includes catering for employers with basic or manual payroll software.

At the same time, greater clarity over the various possible costs of complying with auto enrolment is needed. This will help small firms successfully plan for and integrate auto enrolment into their business from the outset, and over time enable them to increase contributions.

Lastly, 2015 should be the year where we continue to learn important lessons from those firms that have already staged. However, while small, technical alterations may be appropriate, now is not the time to make major wholesale changes to auto enrolment policy. Instead, the focus should be on completing the roll-out by helping small and micro business to implement auto enrolment and comply with their duties.

Mike Cherry, national policy chairman, Federation of Small Businesses

ICAEW

As the final staging dates for small and micro businesses approach, over a million employers will be expected to become compliant in a relatively short space of time. More than 50,000 businesses stage in each tranche from July to December 2016, increasing to over 100,000 per monthly tranche in January, February and April 2017. Many will be looking to their Chartered Accountants to help them get compliant as many of our members also run payroll services.

This impending 'capacity crunch' will mean more automation is vital to ease the burden on scheme providers, financial advisers, Chartered Accountants and the businesses themselves.

Much of the administration of auto enrolment is part of the payroll process. Accountancy practices that currently assist clients with their payroll will also be expected to deal with auto enrolment for these small and micro businesses. Accountancy firms should check whether their existing payroll solution is compatible with their clients' chosen pension providers, it enables clients to meet their employee needs and that it is suitable for auto enrolment.

The capacity crunch over the coming years means that if small and micro businesses fail to take action early enough, they risk missing staging dates because the external assistance available is being used up by other, savvier firms - a 'double crunch'.

'Good' for ICAEW means that accountancy practices are prepared, having agreed with clients upfront what services are to be provided and in what time to avoid the risk of 'engagement creep'. The other big component is ensuring payroll systems and middleware products can automate where possible, including:

- Exchanging data files with pension provider systems, i.e. the export of payroll information including pension contributions.
- Employee assessment (including HR data interrogation) and communications.
- Managing enrolments, opt-outs, opt ins and joiners.
- Calculation of pension contributions (including where there are different contribution rates) and refunds.
- Postponement, i.e. the payroll system should be able to adjust the postponement period to suit the requirements of specific clients.
- Dealing with ongoing monitoring, record keeping and reporting requirements

Auto enrolment has been a great success to date - but its biggest challenges still lie between now and full compliance.

Liz Cole, pensions manager (business law), ICAEW

Institute of Directors (IoD)

Well, we got through 2014. There was quite a widespread fear that 2014 would see a 'capacity crunch' in auto enrolment, as millions of people were enrolled into pension saving for the first time. This didn't happen, although we possibly came close in one or two cases. What we got instead was massive, unexpected reform of the very architecture of a pension itself in Budget 2014.

This has unleashed a storm of new legislation and regulations which are likely to take the whole of the next parliament to implement.

So, 'good' for 2015 looks to me like 'no more change'.

'Good' also looks like getting through to the end of the year without further mishap in auto enrolment, and with greater clarity about which organisations will serve the 'small' and 'micro' end of the pensions market, and how. As we get towards the end of 2015, large numbers of small employers will encounter their staging date. Most will, based on experience so far, defer for three months, so 2016 will see the real 'capacity crunch' emerge, with up to 1.3 million employers yet to take up their new duties. Of course, this end of the market was always the part that NEST was set up to serve, but over-reliance on just one market participant carries its own risks.

'Good' might also look like the regulator, in the shape of the Financial Conduct Authority (FCA) in particular, NOT eroding the freedoms conferred in Budget 2014 through prescriptive action of 'guidance'. There are signs of this happening already, with concerns being aired in Canary Wharf that maybe smaller pensions 'pots' really should not go into flexible 'drawdown'. Freedom and choice in pensions have made pension saving attractive and relevant to modest earners in ways which just did not apply before the reforms. It would be a shame if prescription and a misplaced desire to protect people from the consequences of their choices were to return pension saving to the dark ages.

Malcom Small, senior adviser, financial services policy, IoD

National Association of Pension Funds (NAPF)

For most people, each new year comes with a raft of good intentions, some of which get turned into resolutions and a few of which get turned into good habits.

This year, where others have a wish list of things to do, the pensions industry has a 'must' list of things to do. And as we know that list is pretty long! With so much to do it would be easy to become distracted and focus on 'good enough' rather than 'good' outcomes for our sector and savers alike. But I believe that would be a mistake. So what would 'good' look like?

April will see the implementation of Freedom and Choice and we will want to see safe and steady progress in this area. Putting down a solid foundation will be essential to the future success of these reforms.

The government's new guidance service will be fundamental. In a new and untested environment it is vital that guidance is fully available and that savers know how to access it.

As the year progresses we expect to see more focus on the quality of retirement solutions and the ease with which people are able to navigate the new system. This will allow savers to make better use of the new freedoms and to use their pension savings to provide an income throughout their retirement. At the NAPF, we'll be closely monitoring savers' experiences as part of our Understanding Retirement research programme.

Turning our attention from those drawing an income in retirement to those saving for an income in retirement moves our focus on to auto enrolment. Auto enrolment is now almost universally recognised as a success story, with more than 5 million people having been enrolled into a pension in the last two years. For the first time in a generation, the number of people saving in a workplace pension scheme is rising.

From June this year, we'll see the first employers with fifty employees or fewer reach their staging dates. People working for small employers need the same easy access to pension saving that those working for large employers now have. Whichever colour or colour combination government wins the next election they must commit to the roll-out of auto enrolment on the current timetable.

Auto enrolment is a good example of what can be achieved when there is a consensus about what is possible and desirable in pension saving. It is an initiative that has the long-term interests of savers at its heart which should clearly be the case for all pension policy. The next step in helping secure the future of retirement saving in the UK is to establish an Independent Retirement Savings Commission with a clear remit to define, measure and promote good retirement incomes. Setting up such a commission should be the first thing the next Pensions Minister does and would be a clear sign that they have the long-term interests of savers uppermost in their mind.

Joanne Segars, CEO, NAPF

NEST

Auto enrolment has now passed its second birthday and the pace of change has been swift. It's a good time to take stock and look ahead to the next wave of staging - small and micro employers.

Over the last two years NEST has begun to fulfil the role it was designed for. NEST is beginning to achieve the scale that policymakers envisaged, with, at the time of writing, around 1.8 million members and working with around 11,000 employers.

From the evidence so far, the policy implementation mix is working well. This gives us some measure of confidence as we approach the hard work between now and the end of staging.

From NEST's perspective in 2015 this is what 'good' for employers would look like:

- Small and micro employers know their staging dates, understand how auto enrolment impacts their business in good time and can get on board with a suitable scheme in a way which is easy for them.
- For those who want support, small and micro employers can develop great working relationships with third parties who will help them to comply in good time.

'Good' for intermediaries would look like this:

- Payroll, accountancy and other intermediary employers interacting well with schemes like NEST and using tools like NEST Connect to help them manage multiple clients easily and painlessly.

'Good' for members would look like this:

- Continued low levels of opt-out and cessation.
- A decrease in opt out for older workers as they realise the benefit of employer contributions and tax relief.
- Members grow in confidence and see saving through workplace pensions as a good and normal thing to do.

Tim Jones, chief executive, NEST

TUC

The very success of auto enrolment challenges the notion of 'what good looks like' in workplace pensions. The initial challenge set for auto enrolment was to bring more people into the system. The evidence is that this continues to beat expectations with opt-out rates at around 10 per cent.

In many parts of the private sector, millions of workers on low and middle salaries are receiving pension contributions for the first time. One eye must be kept on the experience of those whose employers will be brought into the auto enrolment system in the coming months. But it is important that some of our gaze focuses on the future. What good means in pensions will look different in future years.

While many more workers now have pension savings, we risk undermining fragile trust in the pensions system if it does not deliver what people expect. One aspect of this is identifying and seeking to eradicate anomalies in the system. Too many people - particularly part-time female workers - are missing out because their earnings do not exceed the earnings trigger. Although it is being decoupled from the income tax threshold, it was linked to the rate at a time when it was being pushed up far ahead of inflation.

With changes from April 2015 making it easier to take pension savings as a lump sum, it is even harder to make the case to exclude lower paid workers from the system. We also have to ensure that those who are saving get what they expect. It would be a betrayal if people who had saved in anticipation of a reasonable standard of living in retirement found themselves struggling to get by. Responsible employers will want to ensure that this is the case. High levels of compliance among employers should assuage fears that those meeting their obligations to their workforces could be undercut by less scrupulous rivals.

It is clear that even when contributions reach 8 per cent of band earnings - a mean contribution of 5 per cent - this is barely a third of what is required to secure a decent income in retirement. We need to discuss how to raise contribution rates and increase the salary band that they apply to. It also means keeping a lid on costs - ideally by improving governance, but also a strengthened charge cap - so that each pound works as hard as possible in the interests of the saver.

Discussion of these issues cannot be left until 2017 when auto enrolment is reviewed. It is important that savers and employers begin to understand the direction of travel.

Likewise, we must consider what people require when they reach retirement and develop default options appropriate to a system based on harnessing inertia. Low charges and strong governance are vital ingredients in the decumulation phase so we don't repeat the disastrous experiment started in the 1980s that did so much damage to the accumulation of savings. This year will be the time to begin in earnest the discussions and debate to build a consensus about what 'good' will look like in the longer term.

Tim Sharp, pensions policy officer, TUC

Which?

It's time to engage, inform, and protect consumers to build on auto enrolment.

In workplaces across the country, auto enrolment has shown us just how powerful policy reform can be when it responds to the behaviours and attitudes of real consumers.

Yet there are still significant challenges ahead to ensure consumers get value for money in retirement. The latest research from Which?'s consumer insight tracker reveals that six in ten consumers are worried about the value of their pension, and just 44 per cent of working age people say they are currently saving for their retirement.

The industry, regulators and government must now build on the early successes of auto enrolment by engaging consumers who might not previously have thought about saving for their future, informing those who do engage, and protecting those who do not. This will require acknowledgement that consumers are different and have varying needs. For instance, some want detailed product information and are highly engaged, others are inevitably less active and might never contact their scheme after enrolment. A 'one size fits all' approach will not help people achieve the retirement income they need and that's why, in the coming months, Which? will be calling for a policy and regulatory approach which aims to do three things:

Engage

Research by DWP and the FSA (now FCA) has found that many consumers take little notice of the annual pension statements they are sent. We think this can partly be addressed by creating greater awareness of the importance of saving. Which? believes that the introduction of a single communication, sent to all savers on the same day, like the 'orange envelope' in Sweden, would be a worthwhile first step in raising the profile of saving. This is important for the long-term health of auto enrolment because, as NEST's own research has confirmed, consumers want to feel in control, even if they do not make an active choice to save.

Inform

Consumers who do engage need better information. Too often in the past different providers using slightly different ways of communicating have made things more confusing for consumers. A single 'pensions dashboard' is urgently needed to give savers information on all of their pots, and State Pension entitlements in one place. The FCA's commitment to behavioural testing of a replacement for 'wake up' packs is a step in the right direction, but it is unlikely that this alone will be enough. Action is needed both to improve information disclosure and projections through the accumulation phase and, critically, to secure robust regulation that ensures default options are good value.

Protect

There will always be a significant proportion of consumers who, for a variety of reasons, do not engage with retirement planning - the industry, government, and regulators have a particular responsibility towards them. This means continuing to ensure default investment strategies are well regulated and there is strong governance to build on the price cap that Which? advocated. There also need to be good value default options available at decumulation, especially in light of the new reforms. We are concerned that existing products, including many self-invested personal pensions (SIPPs), are not currently appropriate for the mass market, and must be adapted before April.

Finally, these issues need to be seen in context. Which? has asked the government to develop a national savings strategy to promote accumulation across savings accounts, pensions, and other vehicles. The retail savings of too many unengaged customers are left languishing in accounts that pay as little as 0.1 per cent interest. Here, too, banks and regulators have to do more to raise awareness, to inform the engaged, and to protect the unengaged.

Richard Lloyd, executive director, Which?

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 - including our customers - and intermediaries think of auto enrolment, pensions and NEST. It also draws on a number of research papers published by NEST in the last year.

Quantitative research

Employer survey. In 2014 we carried out quantitative research with 300 employers using NEST to understand their experiences of auto enrolment so far. We also commissioned three separate quantitative surveys of small and micro employers that have not yet staged. Each of these surveys involved between 300 and 600 employers.

Intermediary survey. This survey aimed to understand the auto enrolment landscape from the intermediary perspective. 250 interviews were conducted with independent financial advisers, payroll bureaus and accountants.

Consumer survey. This is a regular survey of 2,000 consumers who were either eligible for auto enrolment or had recently been automatically enrolled. It tracks their awareness, understanding and attitudes towards auto enrolment and pensions.

Qualitative research

Employer qualitative research, 2014. In-depth interviews conducted with 30 employers setting up with NEST in 2014. The majority of employers interviewed had fewer than 50 workers.

Post Budget at Retirement Market, Qualitative Consumer Research, 2014. In-depth, qualitative research conducted on behalf of syndicate members AXA Life Invest, Friends Life, LV= and NEST. This research consulted a representative sample of 87 participants aged between 45 and 65 on their understanding and preferences with regards to retirement products.

Published NEST research

Improving Consumer Confidence in Retirement, 2014. Available at http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/improving-consumer-confidence-in-saving-for-retirement,PDF.pdf

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Small and perfectly informed? Insights into automatic enrolment and employers, 2014. Available at http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/NEST-Connect-Media-Research-report.pdf.pdf

Research by other organisations

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

Department for Work and Pensions

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DC savers' needs under new pensions guidelines, 2014. Available at http://www.pensionspolicyinstitute.org.uk/briefing-notes/briefing-note-72---dc-savers-needs-under-the-new-pension-flexibilities

The Pensions Regulator

Declaration of compliance report, December 2014. Available at http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report.pdf

Employer automatic enrolment research, Spring 2014. Available at http://www.thepensionsregulator.gov.uk/docs/employer-automatic-enrolment-research-spring-2014.pdf

Employer staging forecast, 2014. Available at http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-employer-staging-forecast.pdf

Intermediaries' awareness, understanding and activity in relation to automatic enrolment, 2014. Available at http://www.thepensionsregulator.gov.uk/docs/intermediary-automatic-enrolment-research-spring-2014.pdf

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NC201 NI 01/2015