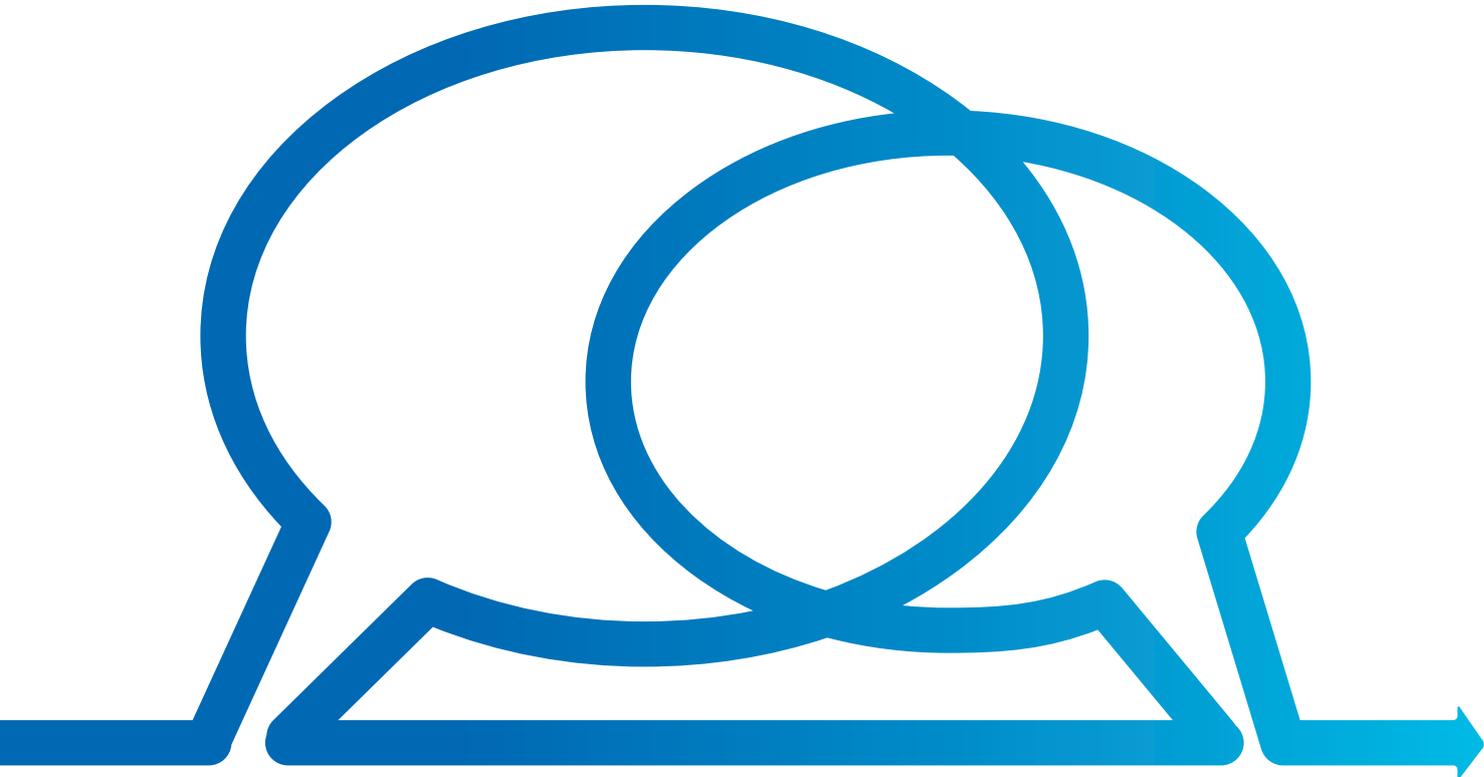


# SME attitudes towards automatic enrolment

February 2017





# Foreword

**Automatic enrolment (AE) turns five in 2017. It feels like a lot longer since those first large employers stepped blinking into the sunlight, hoping that their new responsibility would be a positive one for them and their employees.**

So what have we learned? Well, fundamentally, that AE has been a success. Seven million people have now been automatically enrolled in the UK – many of them saving into a pension for the first time. Opt outs so far have been low. Good news. There are threats, certainly. The risky Lifetime ISA initiative for one. But saving has become part of working for millions of people. Nobody can be unhappy about that.

So what next? Well, later in 2017, we'll be on the edge of our seats for the results of the government review of AE. It's timely, not least because we are now well into staging for smaller employers (or SMEs for short). It would be tempting to suspect that this group wouldn't be overly keen to provide a workplace pension to their employees. But it turns out that actually quite a few of them are pretty supportive of the idea. That's according to our latest research from YouGov into SME attitudes to AE in any case.

The majority of SMEs, whether they've already staged or not, support AE being applied to all employers regardless of size. Those that have already staged are more positive, which might be because having been through the process they know it's not as hard as they expect – and they can see how beneficial it is for their employees. One of the most surprising findings was that 37% of SMEs that had staged were paying above the AE minimum contributions, which is potentially great news for their employees' future retirement incomes.

So what would I like to see from the 2017 review? More people being brought in to AE. Part-time workers are currently high risk to end up underpensioned. At the moment, even if a person has multiple part-time jobs which take them over the earnings threshold, they won't be automatically enrolled unless they exceed it in one. This doesn't make sense. It also disproportionately affects women. It's a serious equality issue which needs to change.

The 2017 review is a good chance to get this right (and also tackle the equally thorny issue of how to get the self-employed saving for their retirement). It has the potential to build on the success of AE so far. It is an opportunity to widen access to pensions and make sure more people benefit from saving for the long term.

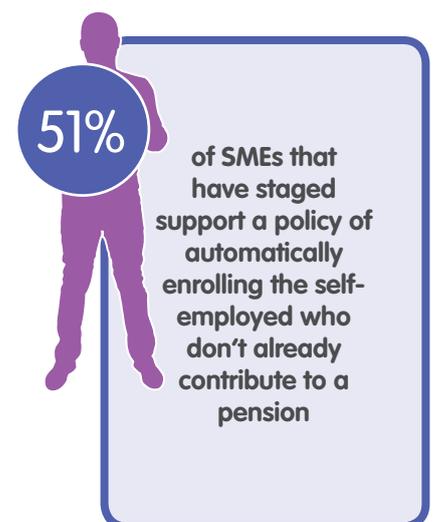
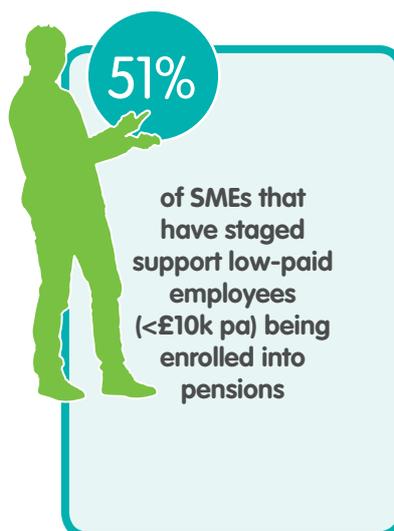
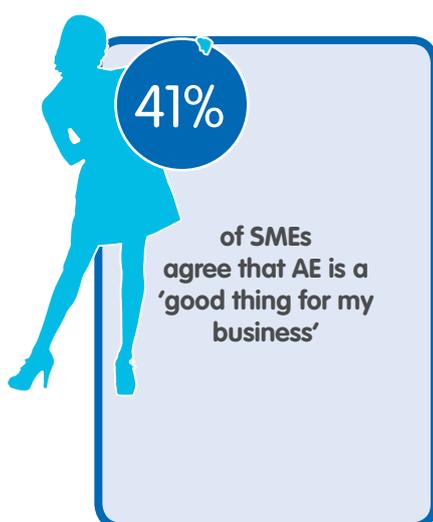
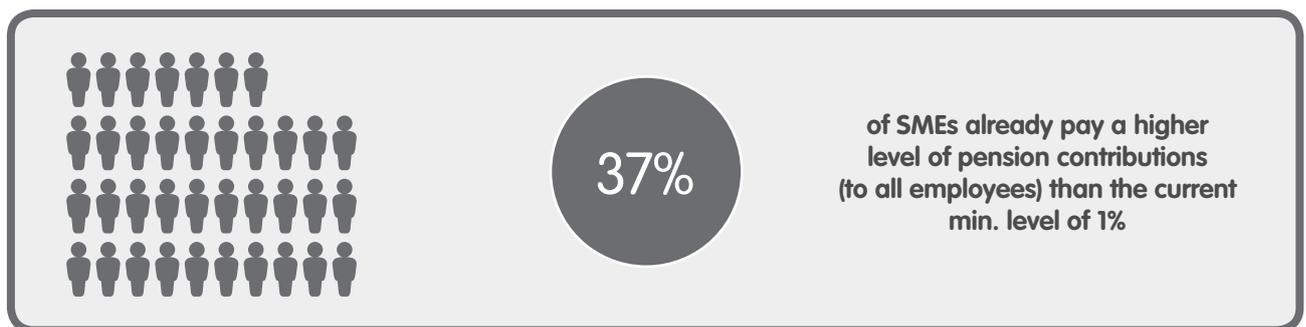
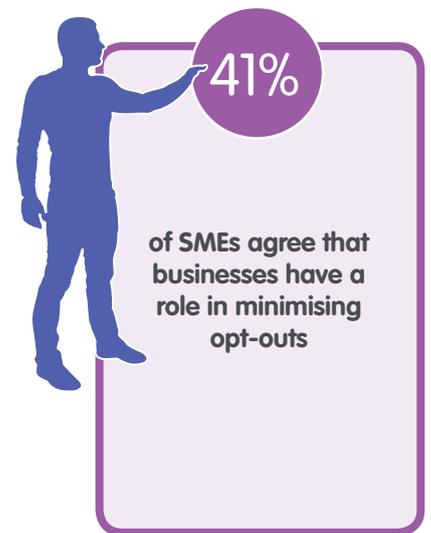
But the review also means kicking off a serious conversation on adequacy. We all know that, even when contribution levels rise, 8% won't be enough to deliver a good retirement income for most savers. This review can and must start the debate – because finding an answer that works will take time.

We'll be sharing our findings with the government to help them shape the future of AE.

All savers, and all those not yet saving, deserve the best possible retirement. It's up to all of us to help them get it.

**Darren Philp**  
**Director of Policy & Market Engagement**

# Headline findings



# Background to the survey

The aims of the survey were to determine attitudes among SMEs towards automatic enrolment – in respect of both their business and their employees – as well as gauging reactions to potential future developments in AE policy.

On behalf of The People's Pension, YouGov undertook this research among senior decision-makers at SMEs.

## Method

The survey was conducted online via the YouGov SME Omnibus, consisting of senior decision-makers at British companies with 2 to 249 employees. Fieldwork was carried out between 5th and 12th December 2016, among 898 respondents. Qualification for the survey questions was awareness of their business's staging date, to ensure we were speaking to individuals with at least some insight into their business's pension provision; 676 SMEs qualified for the survey using this criteria.

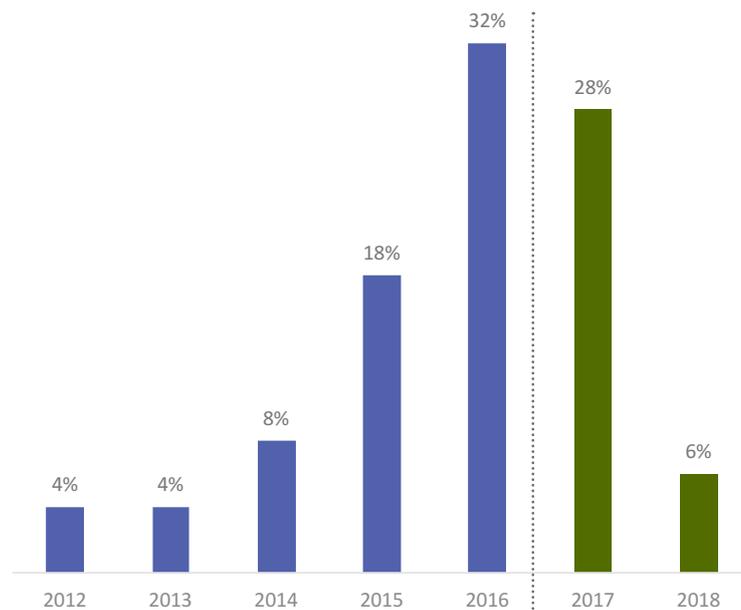
The results are weighted to be representative of GB business size.

Some questions were asked of all SMEs, others were only asked of those businesses that had staged. This is noted in the document.

## Profile of respondents

64% of SMEs responding had already staged. The staging profile of respondents is shown below, along with a summary of their pre-AE pension provision, which highlights that those already staged are far more likely to have had a workplace pension already in place compared to those yet to reach their staging date.

## Business staging date



### Staged

Prior to staging:

- 68% had previously offered a workplace pension to all employees
- 18% to some employees

### Not yet staged

Currently:

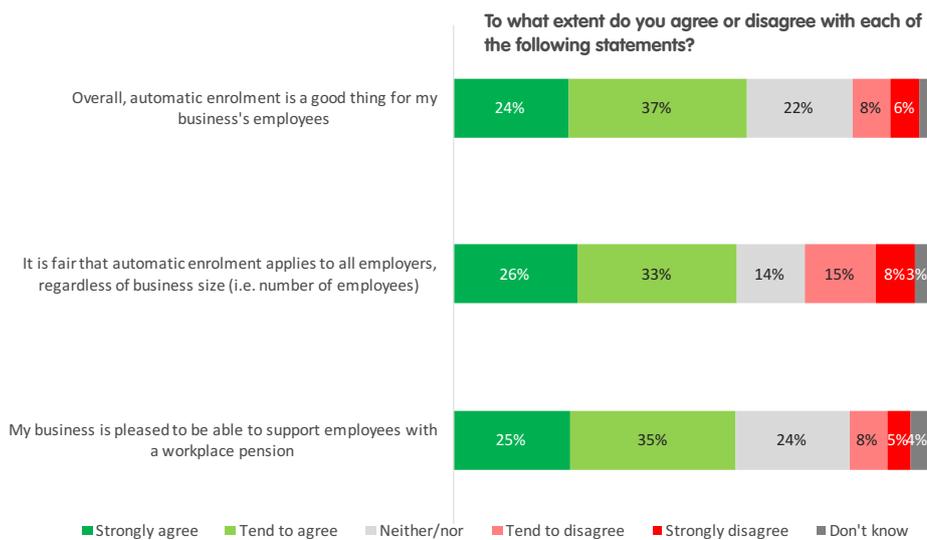
- 30% offer a workplace pension to all employees
- 10% to some employees

# Summary of findings

## SMEs attitudes to automatic enrolment

### Supporting employees through automatic enrolment

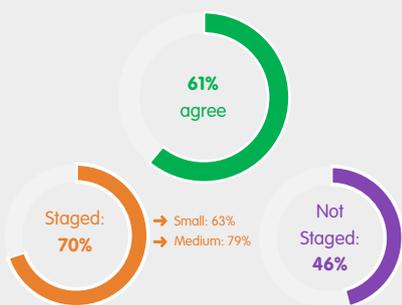
The survey revealed high-levels of altruism among SMEs when sentiment towards automatic enrolment was tested. Three in five agreed that the policy is 'a good thing' for their employees (61%) and that their business was 'pleased to be able support employees with a workplace pension' (59%). A similar proportion agree with the universality of AE – that it is 'fair [it] applies to all employers, regardless of business size.'



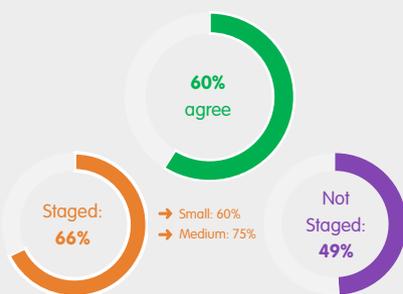
Base: All SMEs (676)

Across all these statements, sentiment was relatively more positive among those SMEs that had staged compared with businesses that had yet to fulfill their duties, and among medium-sized businesses (those with 50-249 employees) compared to small enterprises (2-49).

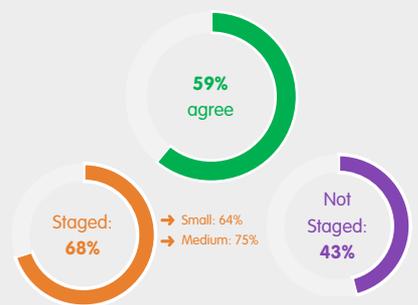
**Overall, automatic enrolment is a good thing for my business's employees**



**It is fair that automatic enrolment applies to all employers, regardless of business size (i.e. number of employees)**



**My business is pleased to be able to support employees with a workplace pension**

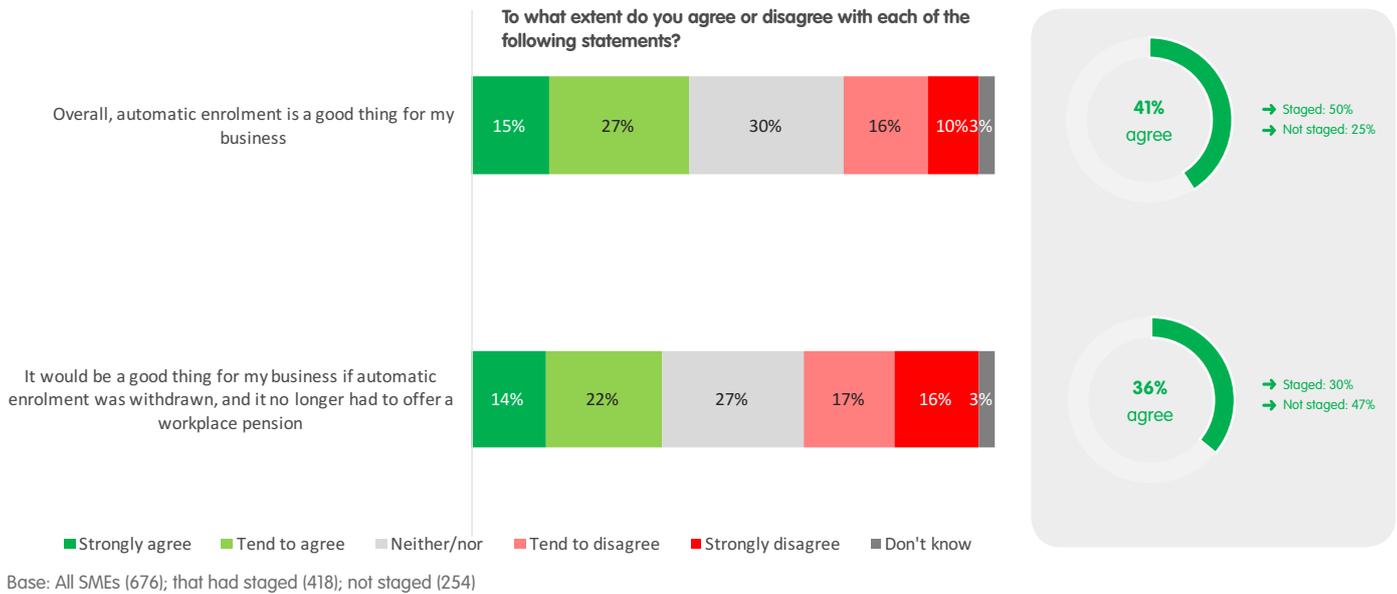


Base: All SMEs (676); that had staged (418) – small (256), medium (162); not staged (254)

## Benefits to their business of automatic enrolment

SMEs were not quite as positive in terms of the impact on their own business of automatic enrolment. Just over two in five (41%) agreed that 'automatic enrolment is a good thing for my business' – falling to one in four (25%) among SMEs that are yet to stage.

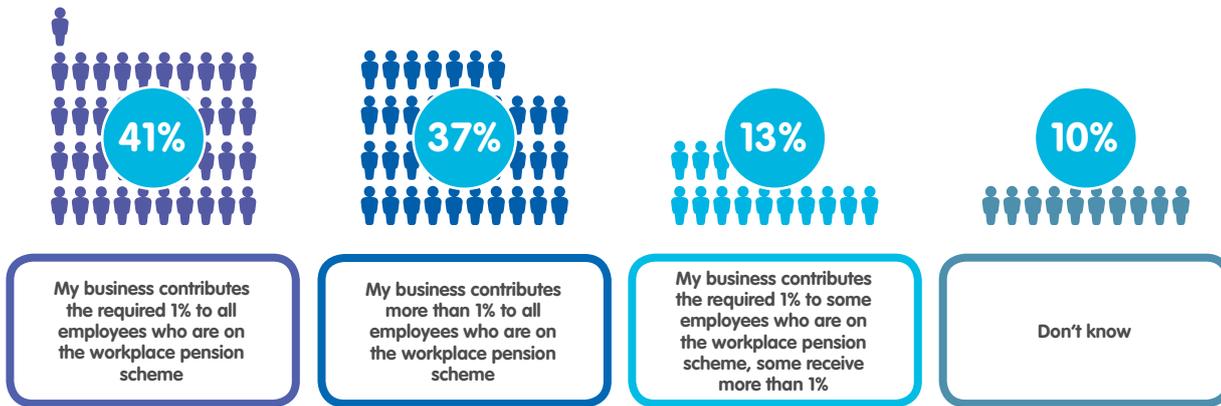
Over one in three (36%) admitted that their business would benefit if AE was withdrawn, with SMEs that are yet to go through the staging process again more likely to advocate this view (47%, compared with 30% among those that had staged).



# Current and future contribution levels

## Current employer contributions

To help provide context to their survey responses, SMEs that had staged were asked whether they contribute more than the current legal minimum to their employees' pensions. Encouragingly, 37% said they were already paying more than the 1% minimum contribution to all employees in their workplace pension scheme; a further 13% said that at least some employees receive a higher contribution level.



Base: All SMEs that had staged with scheme fully set up (398)

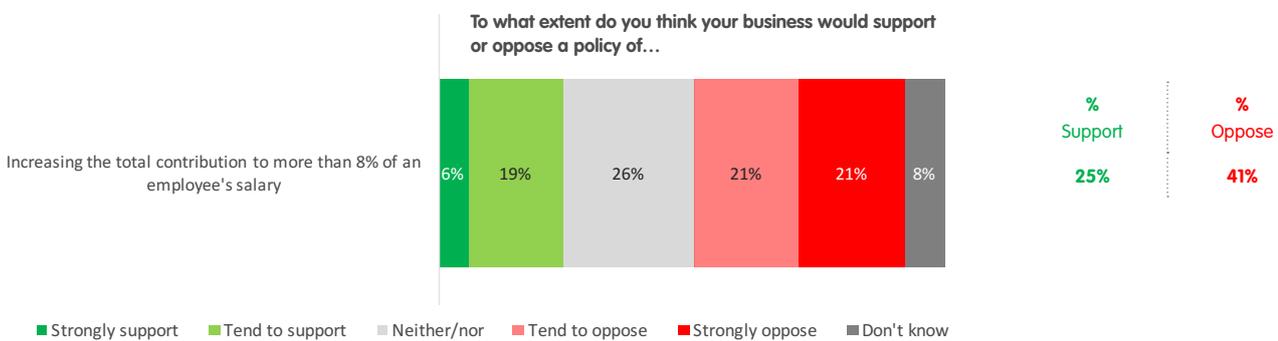
Size and turnover of business are determinants in whether SMEs are likely to contribute more than the legislated minimum level:

- 55% of medium businesses said they contribute more than 1% to at least some employees vs. 45% of small businesses
- 65% of businesses with an annual turnover of over £10m said contribute more than 1% to at least some employees vs. 35% with an annual turnover of <£1m

## Future minimum contributions

Despite this encouraging platform, there appears to be nervousness among SMEs about any proposed increase in total minimum contribution levels above the 8% level being introduced from April 2019.

Overall, only a quarter agree (25%) with a policy of increasing the total contribution level above 8%; in contrast, over two in five (41%) would oppose such a policy.



Base: All SMEs (676)

Even among those SMEs that have already staged, a higher proportion were more likely to oppose (38%) than support (31%) this policy.

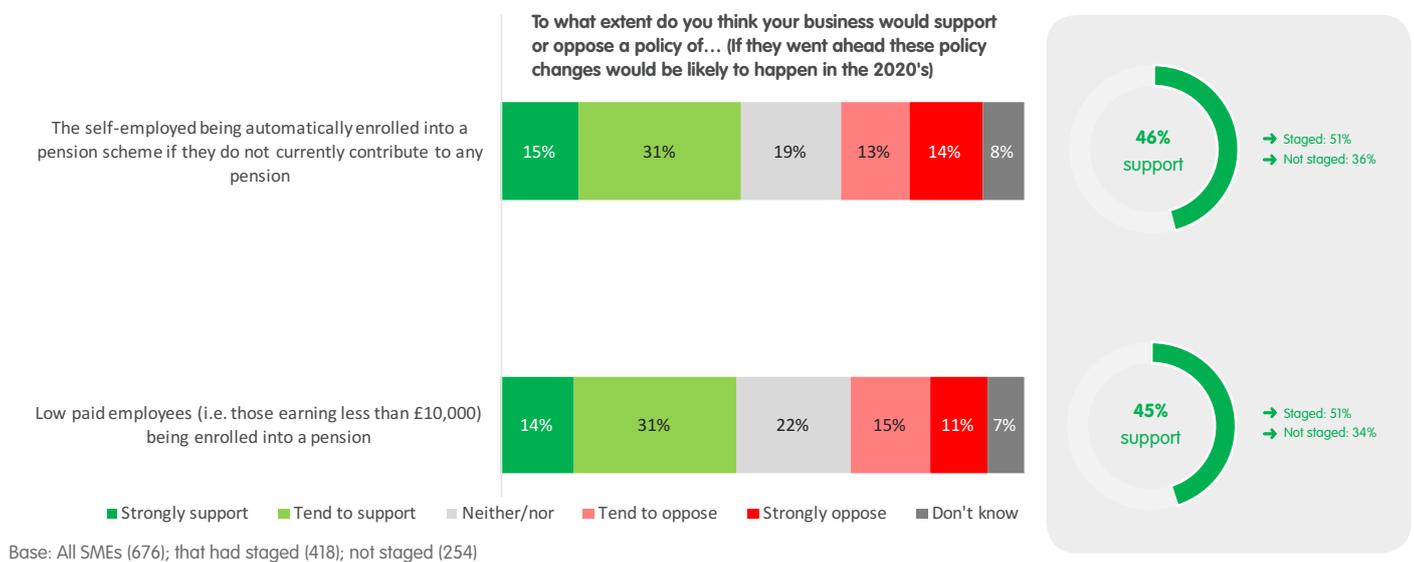
Consistent with these findings, SMEs were also asked whether they were likely to pay a higher level of employer contribution than the 3% minimum from April 2019. Whereas 31% agreed they would likely pay more, a higher proportion – 45% – disagreed that they would contribute above this level.

# Response to potential future changes to automatic enrolment policy

The survey tested the levels of support among SMEs for a range of potential future changes to automatic enrolment policy, including some that are being considered in the 2017 review. When outlining the policies, they were placed in the context of the changes happening in the 2020s.

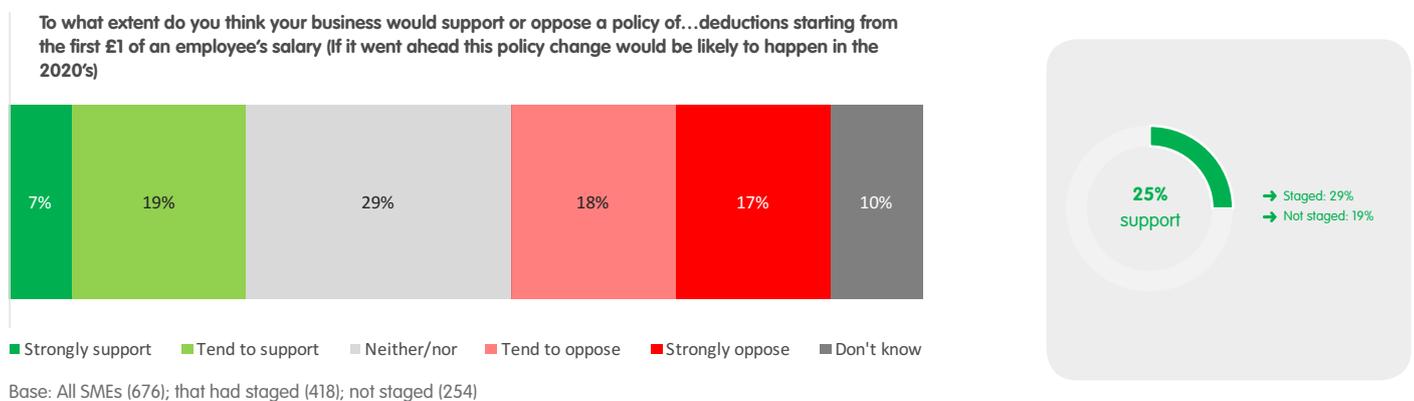
## Enrolling the self-employed and low-paid employees into a pension scheme

Close to half of SMEs (46% - increasing to 51% among those that have staged) stated they would support a policy of automatically enrolling the self-employed into a pension scheme if they do not currently contribute to any pension. This level of support is perhaps unsurprising as such a policy is unlikely to directly impact SMEs. It is therefore both surprising and heartening that there were similar levels of support for bringing low paid employees (those earning less than £10,000 per annum) into the eligibility criteria for automatic enrolment.



## Removing the lower earnings limit for deduction

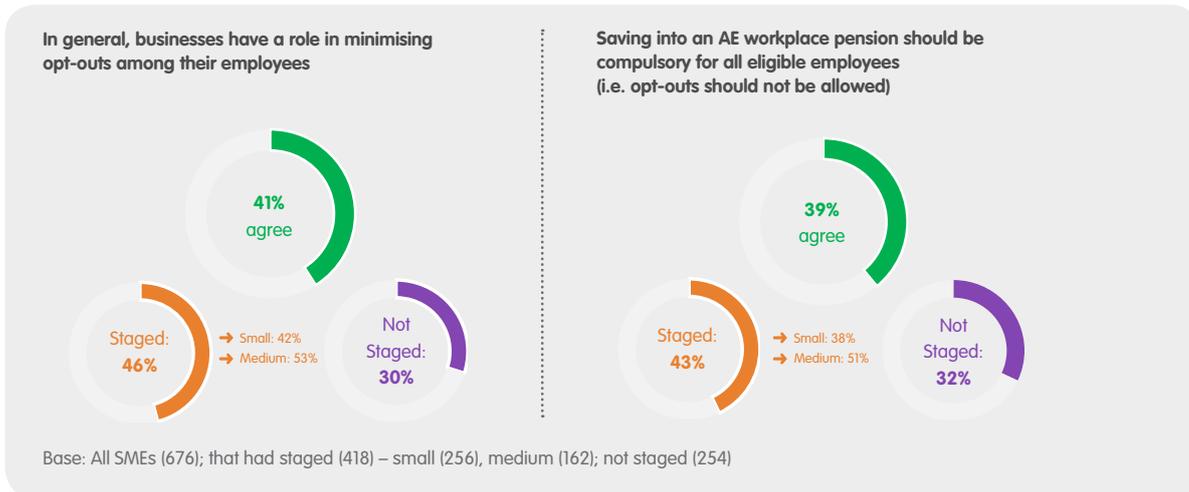
Support was less pronounced for the other potential policy tested: starting deductions from the first one pound of an employee's salary (compared with the £5,820 lower earnings limit in place at the time of publication). A higher proportion of SMEs opposed this suggested policy (35%) than supported it (25%). In contrast with most other questions in the survey, levels of support were not appreciably higher among those SMEs that had staged (29%).



# SME views on opt-outs

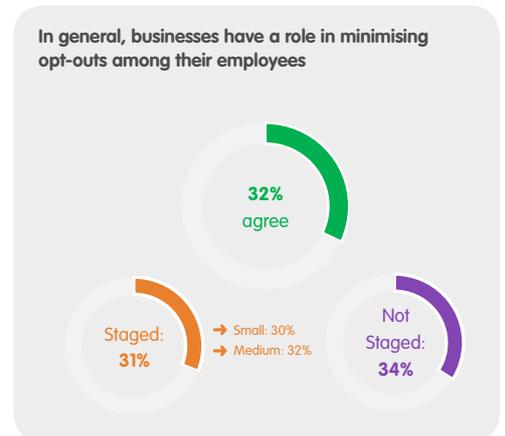
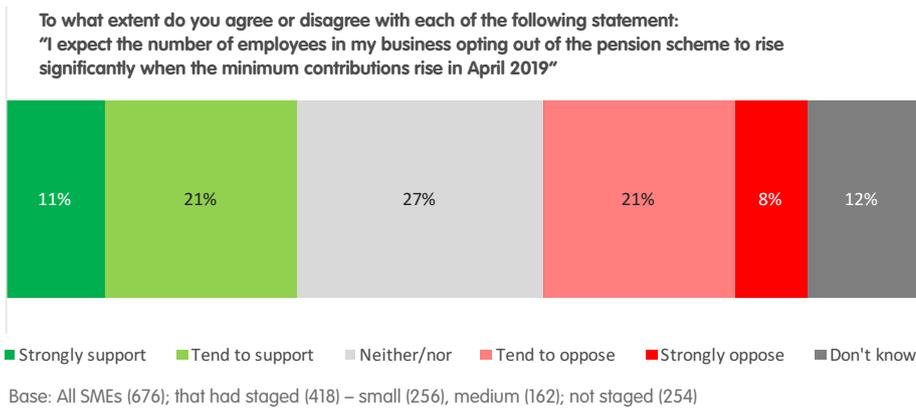
## Reducing or eliminating opt-outs

There was reasonable support for compulsion among SMEs, with two in five (39%) agreeing that all eligible employees should pay into a workplace pension; a similar proportion (41%) agreed that businesses have a role in minimising opt-outs. SMEs that have staged (particularly medium-sized businesses) were more likely to agree than those yet to stage.



## Impact of higher minimum contribution levels on opt-outs

Opinion was split in terms of the impact of the increased minimum contribution levels, from April 2019, on opt-outs within their own business. This was a rare instance where attitudes were consistent across all SMEs with size and staging profile not having an impact. A relatively high proportion answered this question as 'neither agree nor disagree' (27%) or 'don't know' (12%) indicating that this is a subject that SMEs are yet to form an opinion on or feel that it is too difficult to determine at this stage.



# Attitudes towards Lifetime ISAs (LISAs)

The final questions in the survey introduced the concept of LISAs to SMEs, using the description below:

The UK government has proposed the introduction of Lifetime ISAs; this is a new ISA account for those aged 18 to 40 which gives the saver a 25% government bonus on any savings up to maximum £4,000 a year (ie if you save the maximum of £4,000 in a Lifetime ISA in one year the government will add £1,000).

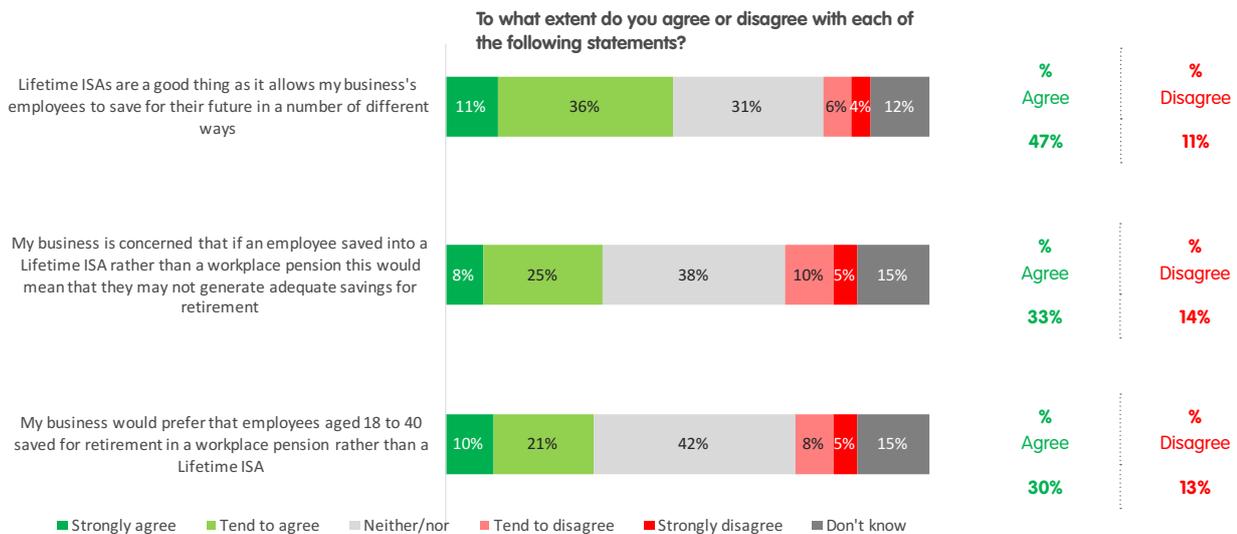
**The money can be used for two things:**

- To buy a first home (only certain homes are eligible for this scheme)
- For retirement (from the age of 60)

Money can be accessed at any time, unlike a workplace pension, but is subject to high penalty charges if used for reasons other than buying a first home or retirement.

Following this introduction, SMEs were asked about the relative merits of a Lifetime ISA compared to a workplace pension. Overall, it would appear that SMEs are cautious about advocating a savings approach to their employees: although 30% agreed that their business would prefer relevant age employees saved in a workplace pension rather than a lifetime ISA, over half did not provide a definitive answer on the subject.

Nearly half of SMEs did agree, however, that LISAs are a good thing for employees as it allows for future saving in a number of different ways.



Base: All SMEs (676). In the survey, respondents were given the following information: "Minimum contributions will increase incrementally to a total of 8% from April 2019, of which 3% will come from the employer."

# Sample breakdown

**Table 1**

Table 1 provides a breakdown of the key groups within the sample.

Key groups	Number (unweighted)	%	Weighted %
<b>All SMEs qualifying for survey</b>	676	100	100%
<b>Size</b>			
<b>Small (2-49)</b>	496	73%	69%
<b>Medium (50-249)</b>	180	27%	31%
<b>Staged / not staged</b>			
<b>Staged</b>	418	62%	64%
<b>Not staged</b>	254	38%	36%
<b>Staging date</b>			
<b>Pre-2014</b>	47	7%	8%
<b>2014</b>	51	8%	8%
<b>2015</b>	114	17%	18%
<b>2016</b>	215	32%	32%
<b>2017</b>	201	30%	28%
<b>2018</b>	48	7%	6%
<b>Region (broad)</b>			
<b>North</b>	117	17%	18%
<b>Midlands</b>	105	16%	16%
<b>East</b>	45	7%	7%
<b>London</b>	149	22%	22%
<b>South</b>	175	26%	25%
<b>Wales</b>	24	4%	3%
<b>Scotland</b>	54	8%	8%
<b>Company age</b>			
<b>Up to 5 years</b>	89	13%	12%
<b>Over 5 up to 10 years</b>	132	20%	20%
<b>Over 10 up to 20 years</b>	178	26%	26%
<b>Over 20 up to 35 years</b>	130	19%	19%
<b>Over 35 years</b>	143	21%	23%
<b>Don't know</b>	4	1%	1%
<b>Company annual turnover</b>			
<b>First year of trading</b>	7	1%	1%
<b>Less than £1m</b>	267	39%	36%
<b>£1m to £9.9m</b>	253	37%	39%
<b>£10m +</b>	92	14%	15%
<b>Don't know</b>	24	4%	4%
<b>Prefer not to answer</b>	33	5%	5%



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