

WINTER 2010–11



EMPLOYEE OUTLOOK

PART OF THE **CIPD OUTLOOK** SERIES

Focus

Focus on pensions

Summary of key findings

- Public sector workers are around two-and-a-half times more likely to belong to a workplace pension scheme than private sector workers.
- Among those private sector workers who are members of a company pension scheme, the most common type is a defined contribution plan with an employer contribution. Within the public sector the most common type is a defined benefit scheme.
- Compared with the private sector, there is a low level of awareness among public sector employees who belong to the pension plan concerning either how much they, or their employer, are contributing to it.
- Women are less sure than men when it comes to knowing what type of pension scheme they are members of and what they or their employer is contributing to the scheme.
- Of those employees who do know what they and their employer contribute to the pension scheme the most frequent rates are: between 5% and 6% (employee) and between 5% and 6% (employer) in the private sector; and between 5% and 6% (employee) and 11% and over (employer) in the public sector.
- The most common explanation given by those who are not members of a pension scheme is that their employer does not have one that they can join, followed by that they cannot afford to join and that they are contributing already to a private pension.
- If employees had to join a company pension immediately, 16% believe that they could contribute between 5% and 6%. However, 21% believe that they could not afford to contribute anything, while another 16% were unable to forecast what they could afford to give. If contributions were phased in over five years, some employees believe that they could increase how much they could pay in but a significant proportion believe that they could still not afford to join.
- Pensions are regarded as an important benefit among public sector employees, as 67% consider whether a potential employer has a pension plan to which it contributes as a consideration in their next job move; by contrast just 30% of private sector staff think likewise. However, both finance and manufacturing employees are more likely to take pensions into account when considering their next employer.

Employee attitudes to pensions

Table 1 shows the proportion of our sample that belongs to a workplace pension. It shows that public sector employees (85%) are more likely to be in a workplace scheme than private sector (35%) staff. However, within the private sector, pension membership is more widespread within finance (64%) and manufacturing (56%). By employer size, 83% of respondents in micro firms do not belong to a scheme while 74% of those in small firms are also not members.

Table 2 reveals the types of scheme to which our sample of pension members belong. The most common arrangement is a defined contribution (DC) scheme (such as a group personal pension or trust-based DC), though this varies by sector, with the highest coverage being in the private sector. Within the public sector, most pension members belong to a defined benefit (DB) plan, though there is higher than average membership within manufacturing (27%) and finance (26%). The CIPD *Reward Management* surveys show that most of these private sector DB schemes are now closed to new staff.

Table 2 also shows that schemes without an employer contribution are not popular among employees and that

one in ten are unsure as to what type of arrangement their employer operates. Interestingly, by gender, while 6% of men are unsure as to the type of pension scheme to which they belong, 16% of women are similarly unsure. It may be that men are just as unsure about their pension arrangements but prefer to make a guess rather than admit that they don't know. Alternatively, it may be that more women are unsure and, as such, pension education should be targeted at this group to make them more aware of their pension choices and the possible retirement consequences.

Just over one in six of those in a pension scheme do not know how much money they are personally contributing to it as a percentage of their pay. This is surprising, as most pension schemes express employee contributions as a percentage of pay or employees can calculate them from their pay packets. Women (21%) are less likely to know how much they are contributing than men (15%). Overall, this suggests that a significant minority of employees are not engaged when it comes to their own pension as they're unsure how much they're paying in; employers should explore whether this is something that they should change.

Table 1: Employees that are members of workplace pension scheme (%)

	All	Private sector	Public sector	Voluntary sector
Members	45	35	85	61
Non-members	54	65	12	40
Don't know	1	1	2	–

Table 2: Types of pension scheme to which employees belong (%)

	All	Private sector	Public sector	Voluntary sector
Defined contribution with an employer contribution	39	54	12	43
Defined benefit	38	20	68	35
Defined contribution with no employer contribution	1	1	2	–
Other company plan with an employer contribution	11	14	5	10
Other company plan with no employer contribution	2	2	1	–
Don't know	10	9	12	12

Perhaps even more surprising is that more than one in four public sector workers are unaware of their own contribution levels. A possible explanation for this may be the recent pension reforms that have taken place in the public sector that have seen contribution rates change and so many workers may now be unsure about what they pay in. Table 3 reveals that the most common level of pension contribution among our sample is between 5% and 6%.

Uncertainty over pension contribution rates increased when we asked our sample to identify how much their employer contributes to their pension plan. Just under one-third of employees are unsure about the level of employer contribution, ranging from around one in five in the private sector to three in five in the public sector. By gender, 28% of men and 39% of women are unsure about how much their employer is contributing to their pension plan.

If employer contribution levels are poor, this level of employee ignorance may be a good thing for some organisations. However, if the levels of employer contributions are high, some employers may be spending huge sums on a benefit the value of which many employees do not value or appreciate.

In the private sector, the most common level of employer contributions identified is between 5% and 6%, while in the public sector it is 11% and over, which is to be expected as most public sector workers are covered by DB schemes. Again, if most public sector workers are enjoying such levels of contribution it is odd that so many of them are unaware of this despite the current debate about public sector pensions.

Table 3: As a percentage of pay, how much do employees contribute to their pension schemes? (%)

	All	Private sector	Public sector	Voluntary sector
Less than 1%	7	8	2	12
1-2%	8	10	4	7
3-4%	19	22	14	14
5-6%	27	25	30	27
7-8%	13	12	14	11
9-10%	6	7	4	6
11% or more	4	3	4	6
Don't know	17	11	27	16

Table 4: As a percentage of pay, how much do employers contribute to their employees' pension schemes? (%)

	All	Private sector	Public sector	Voluntary sector
Less than 1%	1	2	0	2
1-2%	4	5	2	4
3-4%	13	19	5	10
5-6%	18	23	11	14
7-8%	9	10	7	7
9-10%	8	9	3	14
11% or more	14	14	13	21
Don't know	33	18	59	27

As well as examining members of workplace pension schemes, our research looked at those who are not currently members. Table 5 shows the most common explanations given by those of our sample for why they are not in a pension scheme. The most frequent explanation is that there is no scheme for them to belong to, predominantly a private sector response. By gender, 42% of women give this reason compared with 24% of men.

The next most common response is one of affordability and that our pension 'refuseniks' simply cannot afford to join a plan, with little variation by sector. The third most common explanation is that they have a private pension and that they pay into that instead. By gender, men (24%) are twice as likely to give this as an explanation as women (12%). In some instances, this may

be foolish because such individuals could be missing out on an employer contribution and lower pension costs if there is a company plan through which they could contribute.

A number of responses relate to employee inertia ('I couldn't afford to join when I joined my employer and have not thought about it since' (5%) and 'I was not eligible when I joined my employer and have not thought about it since' (3%)) or lack of understanding ('I don't understand enough about pensions to make a decision to join' (4%)). However, the percentage of employees citing these are low, so hopes that educating workers about the importance of pensions and enrolling them into a scheme may not on their own significantly boost pension uptake.

Table 5: Reasons given for not joining a work-based pension scheme (%)

	All	Private sector	Public sector	Voluntary sector*
Not applicable – my employer does not have a pension scheme.	34	36	5	26
I can't afford it at the moment.	21	21	19	33
I already have a personal pension that I pay into.	18	18	14	18
I have other more pressing financial priorities.	13	13	17	15
I would rather save for my retirement in ways other than a pension.	10	9	13	15
Other	9	8	20	13
I'll rely on the state pension.	8	7	15	13
I don't expect to stay with my current employer long enough for it to be worthwhile joining their scheme.	7	6	24	6
I am not eligible to join it.	6	5	15	3
I couldn't afford to join when I joined my employer and have not thought about it since.	5	5	19	5
I am investing in property to pay for my retirement.	5	4	12	5
I don't understand enough about pensions to make a decision to join.	4	4	5	2
The level of employer contribution isn't a big enough incentive for me to join.	3	3	3	–
I was not eligible when I joined my employer and have not thought about it since.	3	3	5	7
I am not interested in saving for retirement yet.	3	3	3	2
I'm going to rely on my partner's pension.	1	1	4	4
Don't know	2	2	3	4
The management charges were too high.	1	1	–	–
There were no ethical investment options.	1	1	2	–

*caution – low base

We asked those not in a pension scheme how much they could afford to contribute if they were to be enrolled into a pension scheme immediately. As Table 6 shows, 21% said that they would not be able to pay anything at all, while a further 16% were unable to answer the question. Of those who thought that they could pay something into a pension scheme, the most common response for private sector employees (the focus of the 2012 pension reforms) was 5-6%, followed by 3-4% and 1-2%.

We also asked how much they could pay in if their contributions were phased in over a five-year time period (as under the 2012 reforms). While the proportion of private sector respondents claiming that they would not be able to contribute anything slightly fell from 21% to 18%, the proportion that are unsure jumped from 16% to 25%. Among those who are able to

forecast a figure, it appears that there is a fall among the lower contribution rates and a rise in the higher contribution rates, though part of this fall can be explained by an increase in the 'don't knows'. This suggests that phasing in employee pension contributions may mean that fewer employees will opt out of workplace pensions than would otherwise have done if it was introduced straight away as they are more able to adapt to a drop in take-home pay.

We also asked the extent to which employees are worried about not having a big enough pension to maintain a reasonable standard of living when they retire because they have not saved enough. Around one in five (21%) strongly agree that they have not saved enough for their retirement, while just over one-third agree (35%). Only 13% of employees disagree with the statement, while 4% strongly disagree.

Table 6: If employees had to join a pension scheme, how much could they afford to pay in immediately and how much if it was phased in over five years? (%)

	All		Private sector		Public sector		Voluntary sector*	
	Immediately	Phased in	Immediately	Phased in	Immediately	Phased in	Immediately	Phased in
Less than 1%	8	4	8	4	5	2	11	9
1-2%	11	6	12	6	1	7	7	4
3-4%	12	8	12	8	6	11	26	14
5-6%	16	13	16	13	26	15	18	22
7-8%	3	6	4	6	-	6	3	9
9-10%	7	12	7	12	12	20	4	3
11% or more	5	7	5	8	2	2	-	1
Don't know	16	25	16	25	20	24	16	30
Could not afford to pay anything in	21	18	21	18	12	14	15	8

*caution - low base

Of those who expressed concern, we asked what would help them to save more for their retirement. Table 7 shows that the most popular responses are knowing the pension pot needed for a comfortable retirement and information or advice about how much they need to save each month. Just over one in six replied that auto-enrolment into a pension scheme would help.

Just under half of employees think it is important that their next employer offers a pension scheme to which it makes a contribution. Table 8 shows that public sector employees see this as more important (67%) than private sector workers (30%). However, within the private sector, employees within finance (64%), manufacturing (59%) and transport and communications (56%) rate pensions highly.

One possible explanation for why private sector employees tend to be less concerned about pensions than public sector workers, is because most of them are not already in a pension and so do not understand what they are missing out on.

By gender, male employees are more concerned (54%) about whether their future employer offers a pension than female staff (42%). The importance of a pension is also linked to grade, with 76% of senior managers, 67% of middle managers and 57% of junior managers saying that a pension would be an important consideration when looking at their next job.

Table 7: What would help those employees who are worried to save more? (%)

Knowing the size of the pension pot I have got to achieve at the end of the day in order to retire comfortably	44
Information or advice about the amount I need to save each month to ensure I can retire comfortably	39
None of the above	28
Regular updates about the value of my pension	28
A better understanding of my employer's pension scheme	19
Automatically joining me into the pension scheme rather than asking me if I want to join	17
Not applicable	7

Table 8: The importance employees put on whether their next employer offers a pension scheme to which it contributes (%)

	All	Private sector	Public sector	Voluntary sector
A great deal of importance	18	1	34	19
A fair amount of importance	30	29	33	36
None at all	28	32	14	21

Conclusions

Nearly six in ten (56%) employees agree they have not saved enough for their retirement. However this appears to be an issue that some people are prepared to stick their heads in the sand on and hope that the problem will somehow magically resolve itself. The survey finds that more than half of staff don't have a workplace pension scheme, rising to 65% in the private sector.

Even among employees that do have a pension, a third (33%) don't know how much their employer contributes. There is a significantly lower level of awareness among public sector employees about how much their employer is contributing to their pension compared with those in the private sector. This could reflect the impact of pension changes on employee awareness, that unlike DC arrangement, employer contributions are not defined in DB or poor communication on the part of the employers. Whatever the cause, it is important for public sector employers to communicate the value of the pension deal to their employees if they are going to appreciate it.

This is particularly important in the run up to April 2012 when public sector workers will find their own contributions increasing by on average 3%, as announced in the autumn 2010 Comprehensive Spending Review. If public sector staff recognise and value the contribution their employer makes to their pensions they may be less likely to see it as an issue to resort to industrial action.

More widely, if more people are going to contribute more to their retirement, employers and the pension industry need to work together to educate employees about how pensions work and ideally what they should be saving and how for their retirement. In particular, employers and the pension industry should look at how they communicate to women, as this survey indicates that they may be less savvy when it comes to pensions and this could have an impact on their standards of living in retirement.

The low level of knowledge about pensions generally highlighted by the survey emphasises the importance of government working with employers to communicate the implications and potential benefits of the introduction of the auto-enrolment changes and the creation of a low cost, national pension saving scheme from October 2012.

This marks a watershed moment for pension provision in the UK. It represents a unique opportunity to raise awareness and interest among employees in saving for later life.

The changes, being phased in from 2012, will affect most workers, who will be auto-enrolled into a workplace pension scheme. However, auto-enrolment may prove difficult with certain staff groups, such as casual workers, seasonal workers and those studying for qualifications at work. Those not eligible for auto-enrolment can ask to enrol if they wish.

The CIPD believes it is crucial that the Government supports employers' efforts to communicate to employees the implications of the pension changes if it is to achieve its aim of encouraging more people to invest in pensions and save for retirement. Without some government investment in communicating and marketing these changes to workers, there is a real danger that 2012 will prove to be a missed opportunity for achieving a step-change in the uptake of pensions. However, the survey also indicates that some employees believe that they simply cannot afford to pay into a pension, a feeling that may increase with increasing levels of tax, reductions in benefits and below-inflationary pay rises. It may be possible to encourage some within this group to save by phasing in their contribution levels, but for many this may not be enough. Government should consider how it should react if a significant proportion of employees opt out of automatic enrolment.

For some employers, it will make business sense to have a good pension scheme so as to help it stand out in the marketplace and attract and retain key talent, or to assist its performance management strategy. However, for other employers it may not make business sense to offer more than the minimum required under the 2012 pension reforms. Yet for either of these approaches to work, employers must be able to identify whether pensions are valued or not by existing and potential employees and needed by the business to manage its talent. If pensions do make business sense, this benefit then needs to be communicated to employees so that they are aware of it and value and appreciate it.

Background to the survey

The CIPD has commissioned a quarterly survey among UK employees (including sole traders) to identify their opinions of and attitudes towards working life today, particularly during these difficult economic times.

YouGov conducted the latest quarterly online survey for the CIPD of 2,053 UK employees from 17-23 December 2010.

This survey was administered to members of the YouGov Plc UK panel of more than 285,000 individuals who have agreed to take part in surveys. The sample was selected and weighted to be representative of the UK workforce in relation to sector and size (private, public, voluntary), industry type and full-time/part-time working by gender. The sample profile is normally derived from census data or, if not available from the census, from industry-accepted data.

Panellists who matched the sample profile (as explained above) were selected at random from the YouGov Plc UK panel and sent an email inviting them to take part in the survey.

Respondents were drawn from a mixture of public, private and voluntary organisations.

Size of organisation was classified in the following way: sole trader (one-person business), micro business (2–9), small business (10–49), medium (50–249) and large (more than 250).

Net scores refer to the proportion of people agreeing with a statement minus those disagreeing.



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The *Employee Outlook* is part of the CIPD Outlook series, which also includes the *HR Outlook* and the *Labour Market Outlook*. Drawing on a range of perspectives (and with the opportunity to compare data across our regular surveys), this triad of research enables the CIPD to offer unique insight and commentary on workplace issues in the UK.

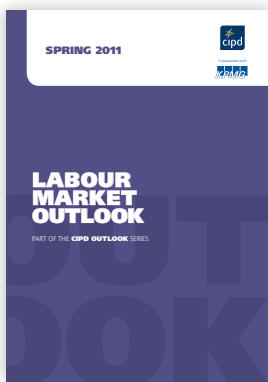
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