

**AUTUMN 2011**



# **LABOUR MARKET OUTLOOK**

PART OF THE **CIPD OUTLOOK** SERIES

**Focus**

# FOCUS

## 2012 pension changes

In 2012, the UK's largest employers will be legally obliged to automatically enrol workers aged 22 years or over, and earning more than £7,500, into a qualifying pension scheme, into which the employer must contribute (otherwise known as auto-enrolment). By 2017, all employers will be subject to these same requirements.

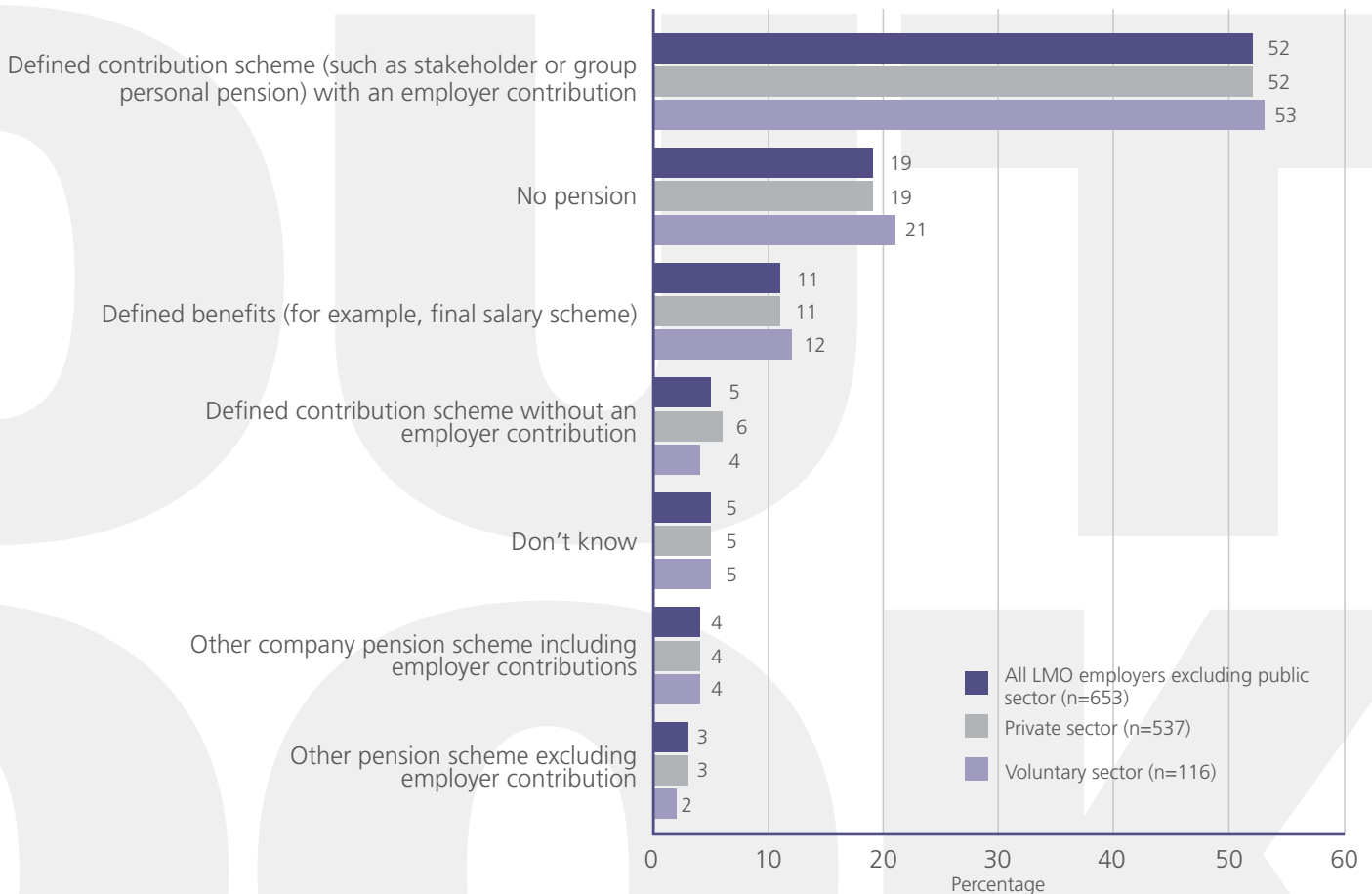
This quarter's focus section investigates the progress that private and voluntary sector employers are making ahead of the introduction of the auto-enrolment workplace pension scheme next year. In addition, the research looks at awareness levels of NEST (the pension scheme created to meet the needs of small employers and moderate earners) and potential uptake in the future.

### Current pension provision

We start by examining the existing provision of pension schemes among our sample of employers. All analysis excludes public sector employers.

As Figure 1 reveals, 19% of respondents currently provide no pension vehicle for their employees. Among those that do, the most common arrangement is a defined contribution (DC) pension scheme where the employer contributes (52%) followed by defined benefits (11%) and defined contribution scheme without an employer contribution (5%).

**Figure 1: Pension provision, by type and sector**



Respondents within larger organisations (250+) are significantly more likely than those in smaller and medium organisations to provide a defined benefits (DB) pension (18% compared with 3%) or a DC pension (64% compared with 39%). More importantly, smaller and medium organisations are almost ten times more likely than larger organisations not to offer a pension (38% compared with 3% respectively).

When asked what type of pension is currently offered to new employees, defined contribution with employer contributions topped the list (59%), followed by no pension (18%) and defined contribution scheme without an employer contribution (9%). Results tend to indicate that employers are twice as likely to offer a DB pension to existing employees than new employees (11% compared with 5%).

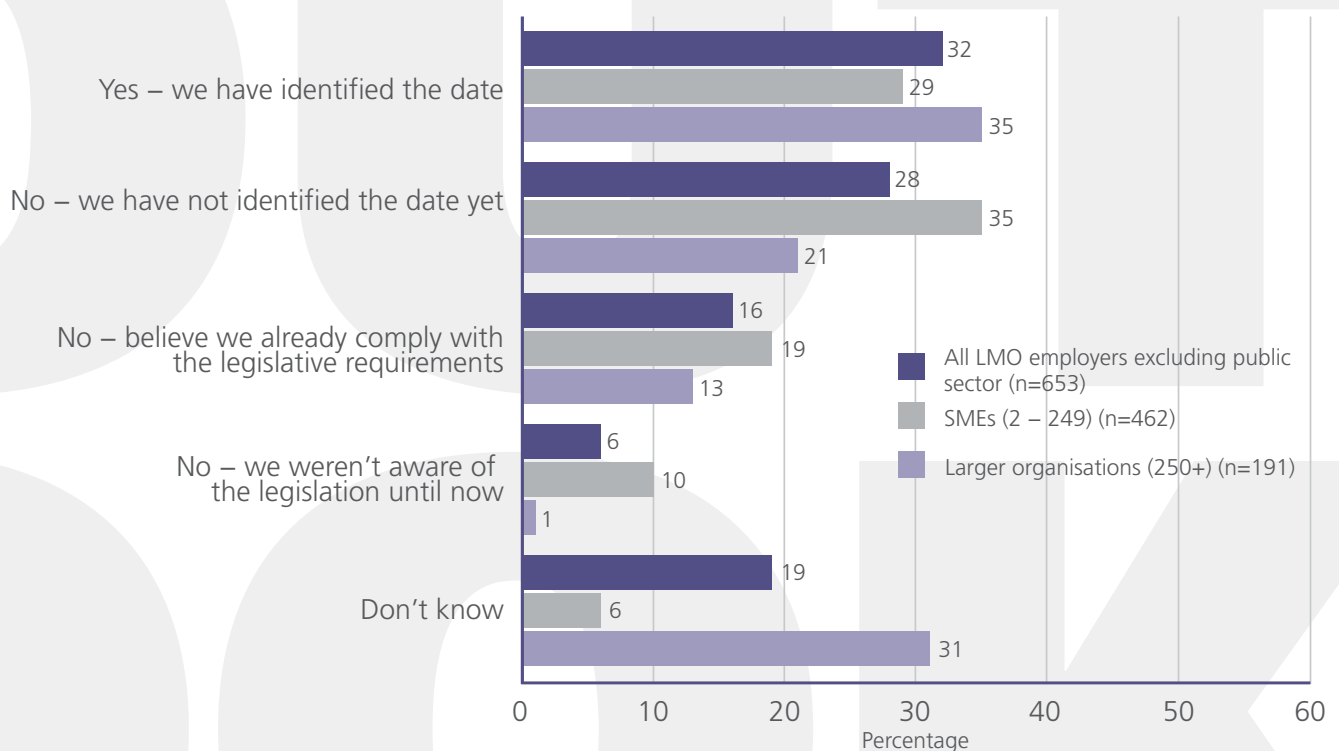
There is a legal requirement for organisations of five or more employees to offer a pension, as a minimum they should offer at least a stakeholder scheme. It is therefore somewhat surprising that 35% of respondents with between 10 and 19 employees state that no pension is offered to new employees.

**Auto-enrolment staging dates**

As Figure 2 shows, 32% of employers have identified their staging date for auto-enrolment. However, 28% have not identified it. A further 16% believe that they already comply with the 2012 legislative requirements, so have not identified their staging date. Just 6% were not aware of the legislation until now and 19% of respondents do not know whether the organisation has identified their staging date yet.

A third of respondents (31%) within larger organisations do not know the staging date within their organisation for auto-enrolment. While we have no direct evidence, the suspicion is that these respondents have assumed that someone else, or another department, within the organisation is responsible for complying with the 2012 changes. The danger with this assumption is that others within the organisation may have assumed that HR is taking the lead and no progress is being made. Even if another department or team is looking into this issue, it is important that the whole of HR is involved in the organisation's response. However, it is likely that a multi-disciplinary team will be required to implement these proposals.

**Figure 2: Identification of staging dates for auto-enrolment**



With the staging date for larger organisations being earlier, it is not surprising that SMEs are significantly more likely than larger organisations to have not yet identified a date (35% compared with 21%). They are also significantly more likely to state they are unaware of the legislative requirement until now (10% compared with 1%).

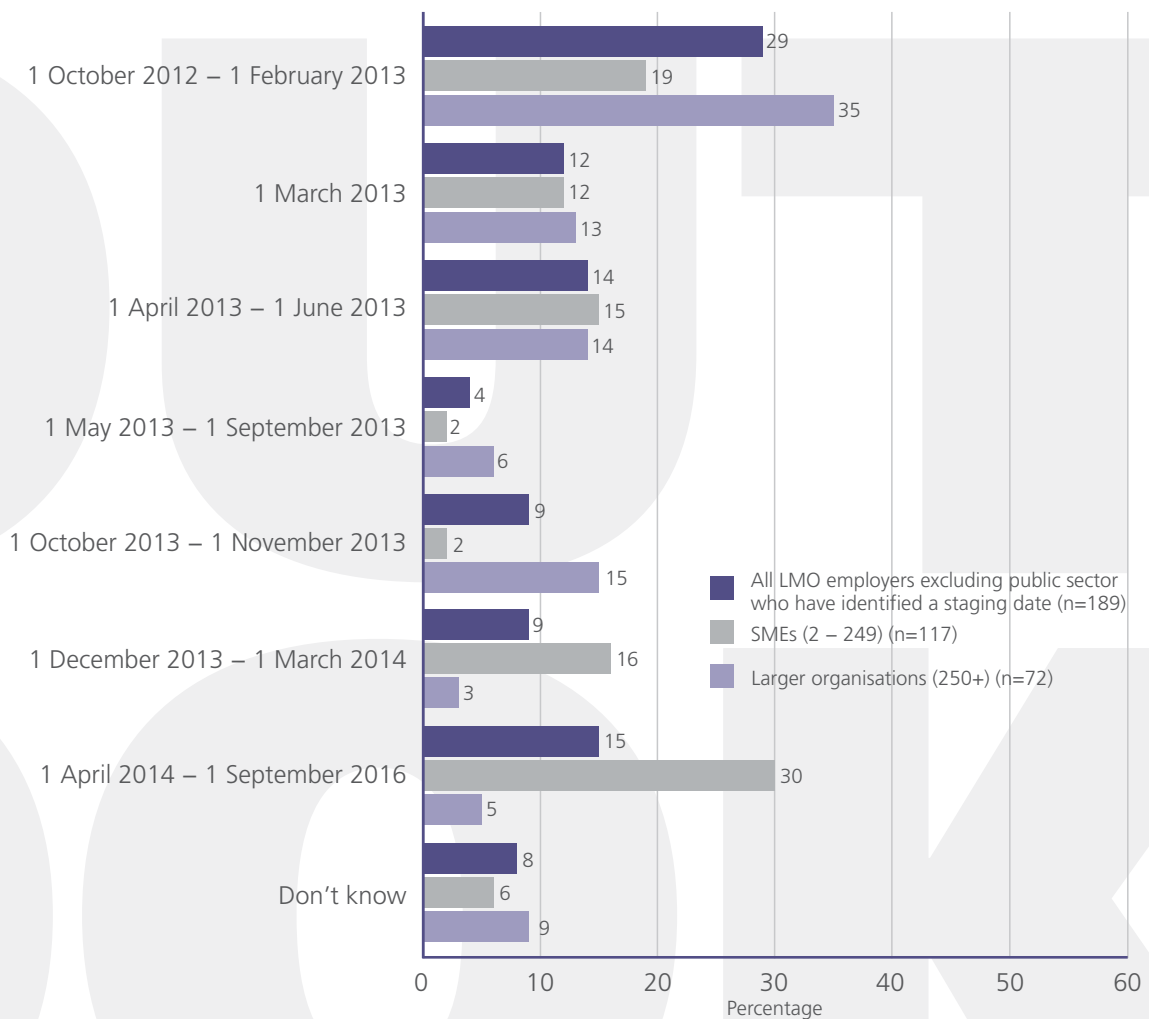
Figure 3 shows that between 1 October 2012 and 1 February 2013 is the most common staging date identified by 29% of employers, followed by 1 April 2014 to 1 September 2016 (15%) and 1 April 2013 to 1 June 2013 (14%).

The staging date for organisations with 250+ employees is anywhere between 1 October 2012 and 1 February 2014 – results within the survey indicate that the majority (86%) of respondents working within larger organisations (250+)

have identified their staging date to be anywhere between 1 October 2012 and 1 March 2014, leaving only a small percentage (5%) stating a staging date of 1 April 2014 to 1 September 2016, which would be incorrect unless there are multiple employing entities within a group.

For SMEs (249 or fewer), the staging date is anywhere between 1 March 2014 and 1 February 2016 – survey data highlights that just under half (45%) of LMO employers within SMEs state a staging date anywhere between 1 December 2013 and 1 September 2016. However, the Government has recently announced that it will postpone automatic enrolment for employers with 49 or fewer employees. Instead of complying from August 2014, they will start to enrol from May 2015.

**Figure 3: Staging dates for auto-enrolment**



**Impact of auto-enrolment**

Figure 4 shows that 20% of respondents who are aware of auto-enrolment but whose organisation does not comply says their organisation has already costed/modelled the impact of auto-enrolment on its finances – 35% have not done so as yet but plan to do so in the next 12 months and 10% plan to do this in the next 13 to 24 months.

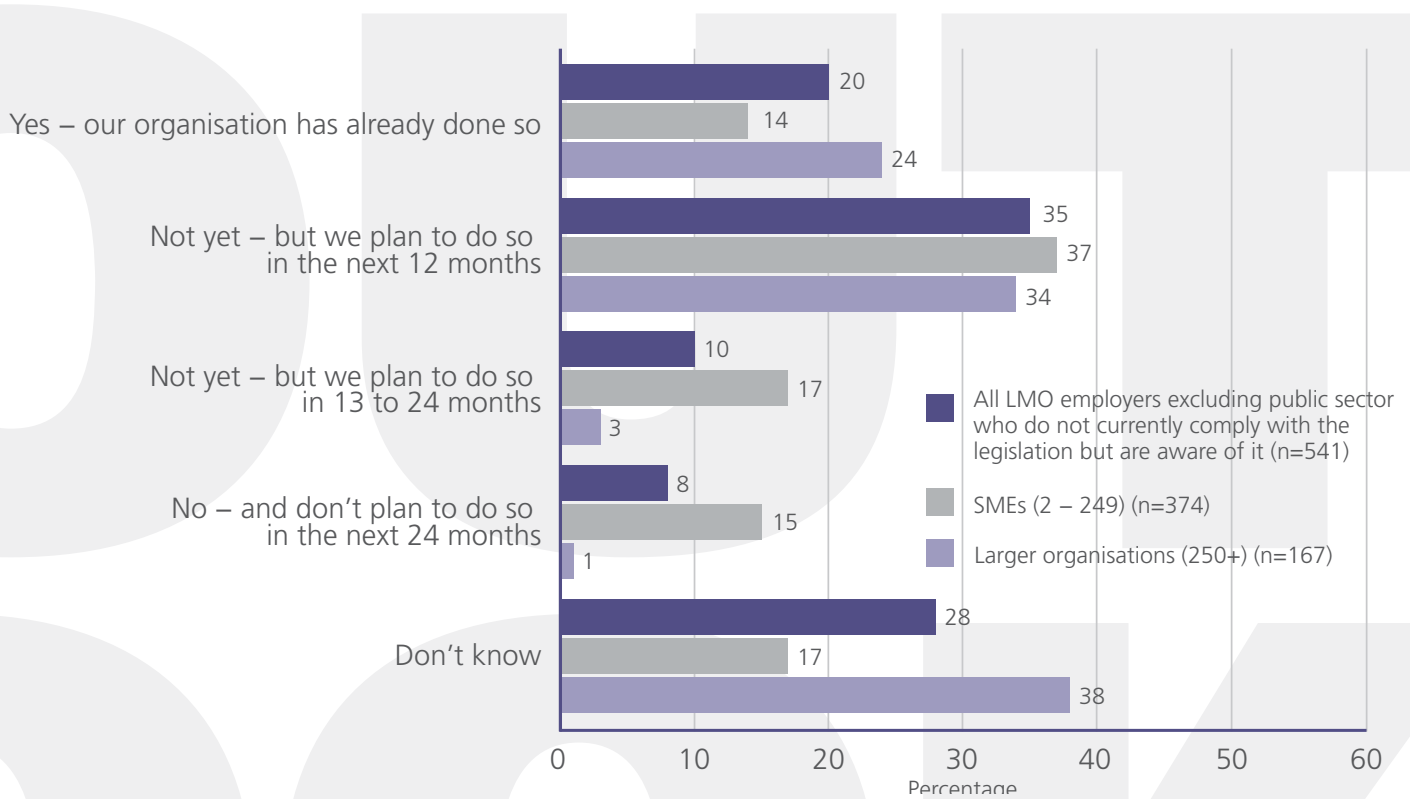
There are no significant differences across sector in terms of intentions to model financial costs of auto-enrolment.

Similar to staging dates, LMO employers within larger organisations are more likely to state that they don't know if any modelling/costing has been or will be conducted. While no evidence exists, these could be further indications

that they do not know because they think/assume that colleagues in other teams such as finance, pensions, payroll, and so on, are looking into this even though this might not be the case.

When asked what impact auto-enrolment will have on their organisation's current pension offering, 42% predict the value will stay the same, 17% forecast it will increase, a further 7% expect it will decrease and 34% say they are unable to anticipate the outcome. However, among those who have conducted some costing/modelling, 42% say the value will stay the same, 22% say it will increase, a further 22% say it will decrease and 13% say they currently do not know.

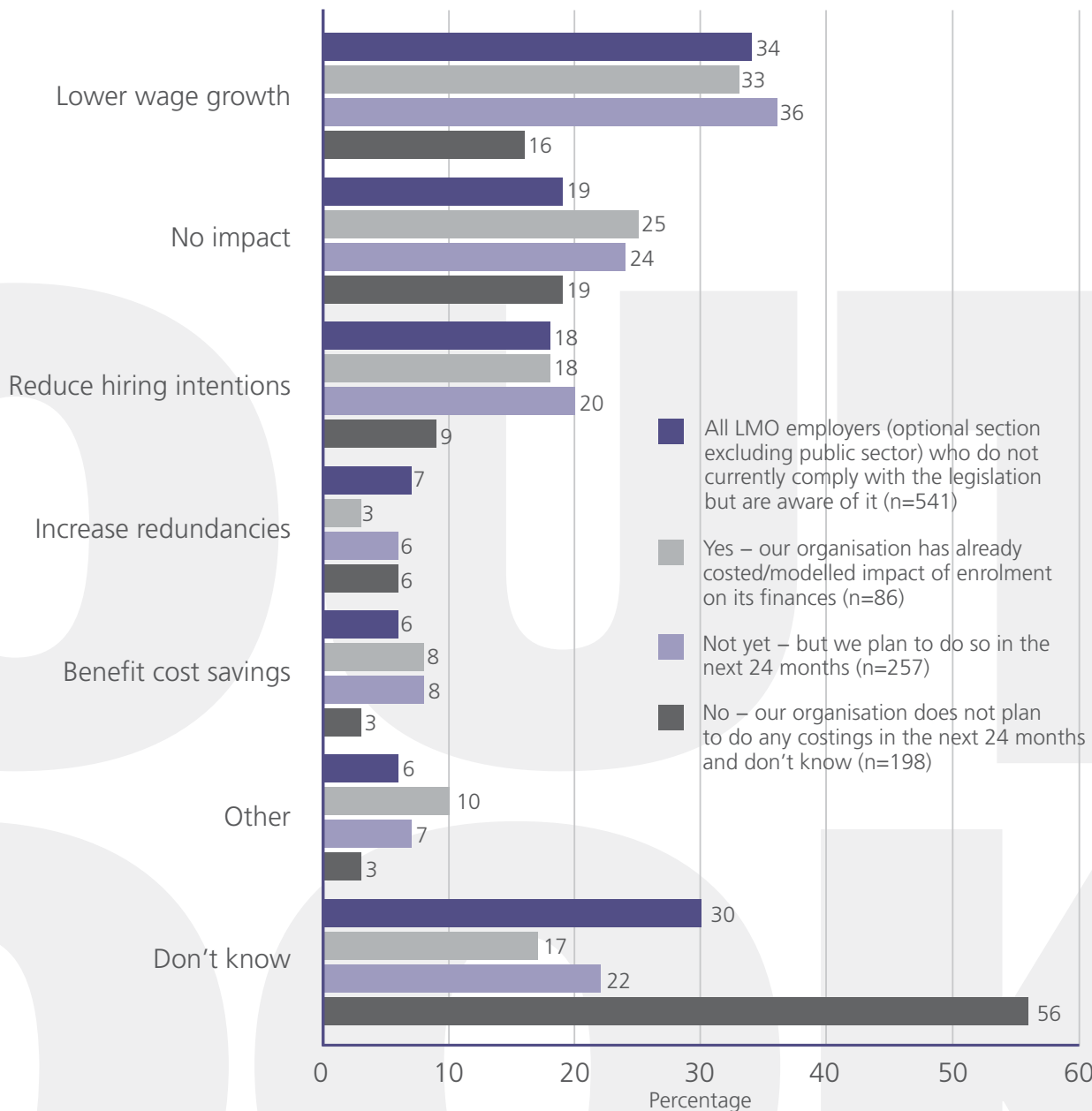
**Figure 4: Intentions on modelling financial costs of auto-enrolment on organisations**



As Figure 5 shows, 34% of all respondents predict lower wage growth as a consequence of auto-enrolment, while 18% report it will impact on hiring intentions, however 19% believe it will have no impact.

Among those who have undertaken some sort of financial modelling exercise, 33% say it will result in lower wage growth, 25% say it will have no impact, 18% say it will reduce hiring intentions and 8% say it will lead to savings in the cost of employee benefits.

**Figure 5: Possible consequences of auto-enrolment**

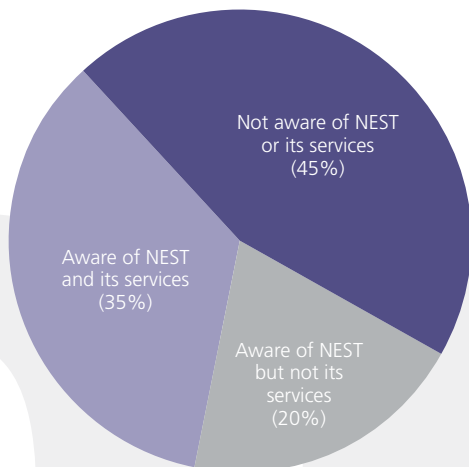


**NEST (National Employment Savings Trust)**

NEST is a defined contribution workplace pension scheme that employers can use for their UK-based workers. Employers can use NEST on its own or alongside an existing scheme they have in place. Employers will be required to make minimum contributions on behalf of some or all of their workers in line with the underlying legislation, whether they choose NEST as the vehicle or an alternative.

Figure 6 shows that with less than a year to go, most employers are already aware of NEST (35% are aware of both NEST and its services, while a further 20% are aware of NEST but not its services).

**Figure 6: Awareness of NEST**



Base: All LMO employers autumn 2011 (excluding public sector) (n=653)

Results across SMEs (2–249) and larger organisations (250+) are very similar with no significant differences. When broken down, organisations with 100–249 employees are significantly more likely to be aware of NEST and its services than organisations with 2–99 employees.

Within the private services sector, 37% of employers are already aware of NEST and its services, while an additional 17% are aware of NEST but not its services. Table 1 indicates that respondents within the IT industry and other business services appear to be more aware of NEST and its services compared with respondents working within the catering and retail trades. Nonetheless, these figures need to be treated with caution due to small base sizes. Outside the service sector, 60% of manufacturers are aware of NEST, but just 40% of those in construction (which has its own equivalent to NEST) though the base for construction is low and should be treated with caution.

Among those employers that are aware of NEST, 17% report that they have already met or been contacted by a representative from the organisation. Employers within larger organisations are significantly more likely than those in SMEs to have been contacted or met by a NEST representative (25% compared with 7%).

Among those employers with an understanding of NEST, 25% report that they would be likely to use it to comply with auto-enrolment. Figures across SMEs and larger organisations are similar, 21% of manufacturers and 26% of service sector firms anticipate using NEST.

Among those employers that are likely to use it, 61% said NEST will probably cover all employees within their organisation, while 36% said it would cover just some of their employees and a further 4% still yet to decide.

**Table 1: NEST awareness among private sector service employers**

	Private sector	Hotels, catering and leisure*	IT industry*	Transport and communications (including media)*	Consultancy services	Finance, insurance and real estate*	Wholesale and retail trade	Other business services
Aware of NEST and its services	37	25	58	33	30	39	27	45
Aware of NEST but not its services	17	15	6	37	22	7	17	18
Not aware of NEST or its services	46	60	36	29	48	54	56	37
Base	366	42	34	33	57	40	57	103

\*Small base sizes, figures need to be treated with caution

## Respondent profile

653 employers responded to the focus section of the LMO. The survey was carried out between 31 August and 10 October 2011. The research was carried out by YouGov on behalf of the CIPD.

**Figure 7: Breakdown of the sample by sector (%)**

	Autumn 2011	Summer 2011	Spring 2011
Private	<b>82</b>	62	62
Public	–	31	31
Voluntary	<b>18</b>	7	7

**Figure 8: Breakdown of the sample by number of employees in organisation (%)**

	Autumn 2011	Summer 2011	Spring 2011
2–9	<b>28</b>	13	13
10–49	<b>20</b>	6	6
50–99	<b>9</b>	5	5
100–249	<b>14</b>	11	13
250–499	<b>8</b>	7	5
500–999	<b>4</b>	9	9
1,000–4,999	<b>8</b>	19	19
5,000–9,999	<b>3</b>	10	10
10,000–19,999	<b>3</b>	7	7
20,000 or more	<b>4</b>	13	13

**Figure 9: Breakdown of the sample by industry (%)**

	Autumn 2011	Summer 2011	Spring 2011
<b>MANUFACTURING AND PRODUCTION</b>	<b>19</b>	<b>14</b>	<b>14</b>
Agriculture, forestry and fishing	2	0	0
Manufacturing	11	9	9
Construction	5	2	2
Mining and extraction	–	1	1
Energy and water supply	2	1	1
<b>EDUCATION</b>	<b>3</b>	<b>5</b>	<b>6</b>
Primary and secondary schools	2	2	1
Further and higher education	2	3	4
<b>HEALTHCARE</b>	<b>4</b>	<b>8</b>	<b>8</b>
NHS	–	6	5
Other private healthcare	4	2	3
<b>VOLUNTARY AND NOT-FOR-PROFIT SECTORS</b>	<b>17</b>	<b>6</b>	<b>6</b>
<b>PRIVATE SECTOR SERVICES</b>	<b>56</b>	<b>51</b>	<b>52</b>
Hotels, catering and leisure	6	2	2
IT industry	5	3	3
Transport and communications (including media)	5	4	4
Consultancy services	9	14	15
Finance, insurance and real estate	6	9	9
Wholesale and retail trade	9	6	7
Other business services	16	12	12
<b>PUBLIC ADMINISTRATION AND DEFENCE</b>	<b>–</b>	<b>16</b>	<b>16</b>
Public administration – central government	–	6	5
Public administration – local government, including fire services	–	7	8
Armed forces	–	1	1
Quango	–	2	2

**Figure 10: Breakdown of the sample by region to which LMO employers' answers apply (%)**

	Autumn 2011	Summer 2011	Spring 2011
<b>North</b>	<b>17</b>	<b>15</b>	<b>11</b>
North-west of England	8	6	4
North-east of England	4	4	3
Yorkshire and Humberside	6	55	4
<b>Midlands</b>	<b>17</b>	<b>12</b>	<b>9</b>
West Midlands	7	3	5
East Midlands	6	4	2
Eastern England	4	4	2
<b>South</b>	<b>36</b>	<b>33</b>	<b>34</b>
London	15	14	16
South-west of England	7	7	6
South-east of England	14	13	11
<b>Scotland</b>	<b>7</b>	<b>7</b>	<b>10</b>
<b>Wales</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>Northern Ireland</b>	<b>1</b>	<b>2</b>	<b>4</b>
<b>Channel Islands</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>All of the UK</b>	<b>18</b>	<b>-</b>	<b>-</b>

## Further information

The Pensions Regulator  
[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

Department for Work and Pensions  
[www.dwp.gov.uk](http://www.dwp.gov.uk)

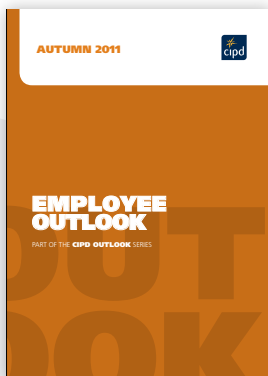
NEST  
[www.nestpensions.org.uk](http://www.nestpensions.org.uk)

Pensions Quality Mark  
[www.pensionsqualitymark.org.uk](http://www.pensionsqualitymark.org.uk)

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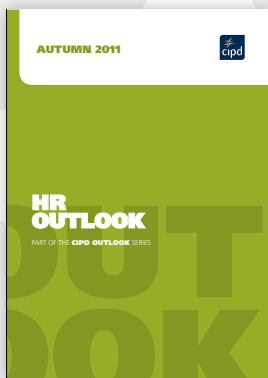
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