

SUMMER 2011



EMPLOYEE OUTLOOK

PART OF THE **CIPD OUTLOOK** SERIES

Focus

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Focus on pay and pensions

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Summary of key findings

- Private sector employees are two-and-a-half times more likely to have secured a pay rise between January and June 2011 than public sector staff.
- Public sector workers are almost one-and-a-half times more likely not to have seen their pay go up since the start of 2011 than private sector staff.
- Within the private sector, employees in manufacturing (48%) and finance (46%) have been more likely to have had an increase since this January, while those in hotels and restaurants (19%) and construction (25%) have been less likely.
- Among those who did get a pay increase, the median is 3%, with an interquartile range of 2% to 5%.
- With inflation averaging around 5% in the first half of 2011 and most employees receiving a pay freeze or a rise below the cost of living, around than one in five report that making ends meet is a constant struggle, with women (22%) coping less well than men (15%).
- Similarly just under one in five employees report always or most of the time running out of money before the end of the week/month.
- If employees were to lose their main source of income, two in five would be able to carry on for fewer than three months, while three in ten could cope for six months or more.
- By gender, one-third of men could survive for six months or more while only one-quarter of women could survive for the same length of time.
- Three in ten public sector workers believe that they will have enough for their retirement, while fewer than one in four private sector workers believe likewise. In addition, while one in five private sector employees admit to having no financial plans for retirement, only 1 in 14 public sector workers confesses the same.
- Employees are more concerned about saving enough and planning for retirement than making ends meet, having enough money for day-to-day spending or meeting credit and borrowing commitments.
- With 16 months to go to pension auto-enrolment, just under half of private sector workers and just over two-fifths of voluntary sector employees are aware of the reform. The young, those working in hotel and catering and employed in non-managerial roles are least conscious of the changes.

Pay rises, freezes and cuts

This quarter's *Employee Outlook* survey asked respondents whether (excluding promotion or demotion, job re-grading or a new job) they have had a pay rise, freeze or cut between the start of the year and 24 June. Table 1 summarises the findings and shows that, overall, almost three in five (58%) of the sample have not seen their pay rise between January and June 2011.

By sector, just 13% of public sector workers have enjoyed a pay rise while 81% report that their pay has not increased or has been cut. By contrast, 32% of private sector workers have received a pay rise while 52% saw no increase in pay. However, private sector employees are more likely to have said that their pay has been cut than public sector workers. Within the private sector, employees in manufacturing (48%) and finance (46%) are most likely to have seen their base pay go up since the start of 2011. Those working in hotels and restaurants (19%) and construction

(25%) are the least likely to have seen their salaries rise.

Table 2 shows that, by employer size, those working for micro employers (11%) are least likely to have seen their pay rise so far, followed by small, large and medium-sized organisations. One in five employees working for micro employers report that their pay has been cut.

There is an association between pay freezes and an employee being more likely to look for a new job. Among those looking to move job, 65% of those looking for an internal promotion and 64% of those looking for a new employer have not seen their pay go up in 2011.

Among those who have received a pay increase so far this year, the median figure is 3%. Table 3 gives some further information about those who got below-median increases.

Table 1: Employees that have had a pay rise, freeze or cut since the start of the year, by sector (%)

	All	Private sector	Public sector	Voluntary sector
Pay cut	6	7	4	8
Pay freeze	58	52	77	55
Pay increase	28	32	13	30
Don't know/can't remember	8	9	6	7

Table 2: Employees that have had a pay rise, freeze or cut since the start of the year, by employer size (%)

	Micro	Small	Medium	Large
Pay cut	20	3	6	3
Pay freeze	61	60	48	57
Pay increase	11	29	36	33
Don't know/can't remember	9	8	10	7

Table 3: Pay increases (%)

	Lower quartile	Median	Upper quartile	Mean
All	2	3	5	4
Women	2	2	4	3.6
Retail and wholesale	2	2	3	2.9
Age 45–54	2	2	4	3.7
Large employers	2	2	3	3.3

Personal finances

However, with inflation (as measured by the Retail Prices Index) running at around 5.2% during this period, many of those who have been lucky enough to have got a pay rise will have seen its value reduced by the cost of living. Our survey asked a number of questions to see how they, as well as those who have not enjoyed a pay rise, have been coping.

Table 4 shows how well employees have been keeping up with their bills and credit commitments currently. It shows that 73% are keeping up with their financial commitments either with ease or the occasional struggle, while 18% report that they are still meeting their commitments but it is a constant struggle. Just 8% admit that they are not coping. There is little variation in response by sector.

Of those employees looking to change employers for a similar role, 31% state that keeping up with their financial commitments is a constant struggle.

The survey also asked whether employees had run out of money before the end of the week or month in the past 12 months. This included times when they had run out of money and had used their credit card or overdraft to get by. Overall, 18% say that they run out of money always or most of the time, with little variation by sector. By contrast, 57% report that they never or hardly ever run out of money. Table 5 shows that public sector workers are slightly less likely to report this (55%) than private sector workers (59%) and are more apt to say that they sometimes run out of money (25%) than private sector workers (21%).

Table 4: How well employees have been keeping up with bills and credit commitments at the moment, by sector (%)

	All	Private sector	Public sector	Voluntary sector
Keeping up with all my bills and commitments without any difficulties	38	38	40	36
Keeping up with all my bills and commitments, but it is a struggle from time to time	35	34	36	38
Keeping up with all my bills and commitments, but it is a constant struggle	18	19	16	19
Falling behind with some bills or credit commitments	5	5	5	2
Having real financial problems and have fallen behind with many bills and credit commitments	3	3	2	3
Not applicable – I don't have any bills or credit commitments	1	1	1	–
Don't know	1	1	–	–
I would rather not say	1	–	–	1

Table 5: How often employees report running out of money before the end of the week or month, by sector (%)

	All	Private sector	Public sector	Voluntary sector
Always	7	7	9	7
Most of the time	11	11	9	12
Sometimes	22	21	25	22
Hardly ever	18	19	16	16
Never	39	40	39	39
Don't know	1	1	–	2
I would rather not say	1	1	1	1

Women in our sample are more prone to report running out of money all of the time or most of the time (24%) compared with men (14%). Those aged between 25 and 34 are more likely to report the same (25%), followed by those aged 35–44 (23%), than those aged 55 and over (11%). By region, those living in Yorkshire and Humberside (28%) are more apt to report running out of money all or some of the time, followed by the north-west of England (23%).

If employees were to lose their main source of income, Figure 1 shows that most (29%) could survive for more than six months without having to borrow any money or moving house. Other findings include:

- By gender, while 33% of men could survive for more than six months, just 25% of women have sufficient financial resources to do so.
- By sector, there is a higher proportion of employees able to survive for more than six months in the private sector (31%) than the public sector (24%).

- Older workers (aged 55 or over) are more likely to have funds that could last them more than six months (44%) than those aged 25–34 (16%).
- By region, there is a lower proportion of workers that could survive six months or more in the north-west of England (23%) and Yorkshire and Humberside (24%) than there is in the south-east of England (37%), Wales (35%) and London (32%).

Employees were asked how comfortable financially they will be when they come to retirement. Public sector workers predict a more comfortable retirement, with 31% forecasting that their financial plans will provide them with more than enough or enough to allow them to retire comfortably, compared with 23% of private sector workers that believe the same.

At the other end of the spectrum, Table 6 shows that while 19% of private sector employees admit that they have no financial plans for their retirement, just 7% of public sector workers

Figure 1: How long employees could survive if they were to lose their main source of income (%)



Table 6: Employee predictions of how comfortable financially they will be when they retire, by sector (%)

	All	Private sector	Public sector	Voluntary sector
My financial plans for retirement will be more than enough to enable me to live comfortably.	5	5	4	3
My financial plans for retirement will be enough to enable me to live comfortably.	19	18	27	15
My financial plans for retirement will be enough to get by, but not to live comfortably.	27	26	29	29
My financial plans for retirement won't be enough and I will struggle to get by.	19	19	19	19
I don't have any financial plans for my retirement.	17	19	7	16
Not applicable – I'm already retired.	1	1	–	3
Don't know	11	10	13	13
I would rather not say.	1	1	1	2

acknowledge this. However, this figure could increase in the future if reform of public sector pensions is mishandled and employees leave these schemes. Overall, 36% of employees have no, or insufficient, plans in place for an adequate pension. By gender, 44% of women state that they have no, or inadequate, plans in place for retirement compared with 28% of men. Older workers are more likely to have plans in place for retirement, with 30% of those aged 55 or over predicting that they have enough or more than enough in retirement.

Table 7 shows the extent to which workers are worried about certain financial aspects of their lives, namely: making ends meet; money for day-to-day spending; credit and borrowing commitments; not saving enough; and financial

plans for retirement. The largest amount of employee unease is whether they are saving enough (65% either agreeing or strongly agreeing) or if their financial plans for retirement will be adequate (59%).

Figure 2 reveals employee concerns by gender and finds that women tend to be more worried about financial issues than men.

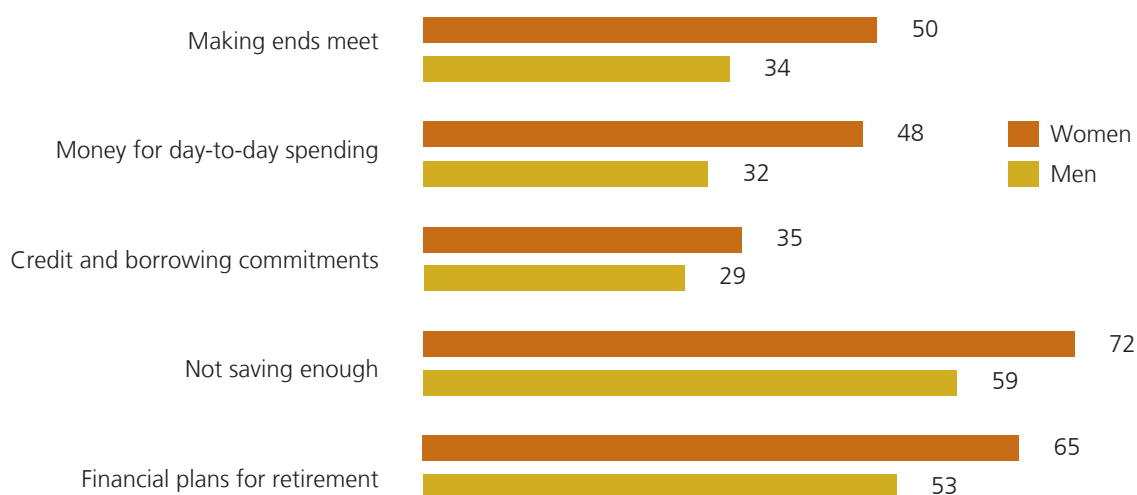
By region, those working in:

- Yorkshire and Humberside (53% strongly agree or agree), Wales (47%) and the East Midlands (44%) are more concerned about making ends meet, while those based in London are least concerned (32%)

Table 7: Extent to which employees worry about... (%)

	Making ends meet	Money for day-to-day spending	Credit and borrowing commitments	Not saving enough	My financial plans for retirement
Strongly agree	15	14	12	22	22
Agree	27	26	20	43	37
Neither agree nor disagree	22	23	20	18	23
Disagree	24	25	26	11	13
Strongly disagree	12	11	21	5	4
Don't know	–	–	–	1	1

Figure 2: Extent to which employees worry about..., by gender (%)



- Wales (52%), Scotland (46%), both Yorkshire and Humberside and the north-west of England (45%) and the East Midlands (44%) are more concerned about money for day-to-day spending than those based in London (34%) or the south-east of England (37%)
- Yorkshire and Humberside (41%), both the East and West Midlands (35%) and Scotland (37%) are more concerned about credit and borrowing commitments than those in the east of England (26%), Wales and the north-east of England (29%) and the south-east and south-west of England (30%)
- Wales (73%) and the south-west of England (70%) are more concerned about not saving enough than those in the east of England (60%), the north-east of England (61%) and Scotland (62%)
- the south-west of England (65%), the south-east of England (63%) and Yorkshire and Humberside (61%) are more concerned about their financial plans for retirement than those based in the east of England (52%), Scotland (55%) and the East Midlands (56%).

2012 workplace pension reforms

To help meet employee concerns about saving enough for retirement, the Government is introducing a law that will take effect from October 2012 onwards. This will require private and voluntary sector employers to automatically enrol workers aged 22 and over and earning more than around £7,500 into a qualifying pension scheme into which both the employee and employer must contribute.

When asked if they were aware of this legislation, 46% of those working in the private sector and 42% of those employed in the voluntary sector said that they were. Within the private sector, awareness is much higher among those working in the finance sector (57%) and construction (54%).

The people least aware of these developments are those working in the hotel and catering sector (30%), which often employs young workers. Among the 18–24 age group working in the non-public sector, just over three in ten (31%) are aware of these pension reforms,

increasing to two in five (40%) among the 25–34 age group. The employees most conscious of the changes to pensions are those aged 55 and over (57%) and those between 45 and 54 years of age (45%). A similar pattern in the non-public sector can be found by level of seniority, with those in non-managerial roles being less conscious of the change than those in managerial roles.

Within the non-private sector:

- Men (54%) are more aware of the reforms than women (38%).
- Those working in Yorkshire and Humberside (51%) and the south-west of England (51%) are more alert to the changes than those employed in Wales (35%) and the north-west of England (43%).
- Those working for micro employers and medium-sized organisations (50%) are more conscious of the reforms, followed by large (48%) and small (42%) organisations.

Conclusion

Given that most private sector employers make pay awards between January and April, it is probable that if workers in that sector have not received their pay rise by now, it is unlikely that many more of them will receive an increase this year. The only exception may be for those working in retail, catering and hospitality, where many employees will get an increase linked to the National Minimum Wage rise from 1 October 2011.

Coupled with below-inflationary pay rises, it is unlikely that consumer expenditure will be the major source of economic growth in 2011. Instead, it is probable that workers will cut back on discretionary expenditure as they try to make ends meet. With limited pay rises, employees will be more likely to try to get a promotion or leave the organisation for a higher-paid job, something that will be easier for those with high skills and few commitments.

With employees worried about maintaining their living standards, they will become even more concerned about saving in general and retirement in particular. Whether they are able to increase their savings will depend on how the

economy recovers. If it does start to grow, employees and employers may be better able to absorb the extra costs associated with workplace pension reforms taking place in the private, voluntary and public sectors.

If recovery is more gradual, the Government and employers will need to make more of an effort to communicate to employees why saving for retirement makes sense, especially with proposals to move away from means-tested state pension benefits. The Government's focus on increasing the personal allowance to £10,000 will also be helpful in making pension contributions more affordable for the lower paid.

With the clock ticking to October 2012, it is welcome that half of employees in micro firms are already aware of the change. On a less positive note, it is disappointing that only 48% of workers in large firms are conscious of the changes, especially as they will be in the first enrolment wave. Financial education may need to be targeted at specific groups, such as women and the young, where awareness of the changes is much lower.

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 2,013 UK employees from 20–24 June 2011.

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 were 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).



Chartered Institute of Personnel and Development

151 The Broadway London SW19 1JQ

Tel: 020 8612 6200 Fax: 020 8612 6201

Email: cipd@cipd.co.uk Website: cipd.co.uk

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