CIPD

Championing better work and working lives

EMPLOYEE

OUTLOOK

EMPLOYEE VIEWS ON WORKING LIFE

Winter 2015–16

FOCUS

Employee attitudes to pay and pensions

The CIPD is the professional body for HR and people development. The not-for-profit organisation champions better work and working lives and has been setting the benchmark for excellence in people and organisation development for more than 100 years. It has 140,000 members across the world, provides thought leadership through independent research on the world of work, and offers professional training and accreditation for those working in HR and learning and development.

Employee attitudes to pay and pensions

Contents

Foreword

‘Since 2012, over 79,000 employers have automatically enrolled just under 6 million jobholders into a workplace pension scheme.’

The gradual roll-out of the Government’s auto-enrolment pension scheme is now in the advanced stages of its implementation. Since 2012, over 79,000 employers have automatically enrolled just under 6 million jobholders into a workplace pension scheme.

The success of automatic enrolment in nudging employees into a pension scheme or keeping them in one is reflected in our research, which finds that two-thirds of workers are now in a pension, over half of whom are in because of auto-enrolment. If we focus just on those earning more than £10,000 a year, this proportion climbs to 72%.

Part of the explanation for the success is that most employees have not noticed the drop in income resulting from automatic enrolment, or any drop has been compensated by a pay rise and so they haven’t needed to cut back on spending or saving. Of the one in four who have felt the cost, 16% have cut back on their spending and 9% on their non-pension saving. Unsurprisingly, it is those in lower-paid work and who have seen their pay frozen in 2015 who are more likely to have sacrificed their spending in response to being put in a pension.

The policy implications of enrolling those paid less than £10,000 a year into a pension is that they will either have to reduce their spending and what other savings they are making in order to pay for their pension contribution or they will simply opt out. The only people who would benefit would be those low-earners who are in relationships with higher earners and so would be more likely to stay in the pension. However, we don’t know how many there are in this situation. The simplest approach is to let those low-earners who want to join a pension to opt in (as is currently the case) rather than going through the administrative cost of enrolling them automatically and then dealing with the subsequent opt-outs.

However, while most employees have so far not noticed an automatic enrolment cost, that is not the case with employers. Just 30% of those questioned said that this process had not discernibly increased their costs and there is no significant difference by employer size. Among the 70% that had recognised the extra cost, the most common response has been to ‘take the hit on the chin’ through lower profits. Another approach has been to claw back the expense through labour costs, for instance, by reducing or freezing wage growth, cutting back on other elements of pay (such as overtime) and only enrolling those eligible on the minimum rates. If we look at the actions of those small and medium-sized firms that have already gone through automatic enrolment, we anticipate that those that have yet to go through it will seek to just pay the minimum that they're required and reduce or stop pay increases.

Various pension commentators suggest that workers and firms are not paying in enough to their workplace defined contribution pension schemes. However, our research shows that both employers and employees are contributing well in excess of the minimum rates required under automatic enrolment.

Our concern is that, coupled with other labour costs, such as the apprenticeship levy and the national Living Wage, now is not the time to be asking firms to contribute more. If they are forced to increase their contributions, we would expect to see reductions in other elements of the reward package. Similarly, those employees in low-waged jobs may be tempted to opt out as the cost of their contributions becomes more noticeable.

One way of being able to increase pension contributions without cutting back on other parts of the payroll is if employers are able to improve productivity. However, so far, just one in ten employers have taken this opportunity to review working practices and job design in order to help pay for automatic enrolment through increased performance.

When we talk to employers about the importance of productivity, many claim that they have been increasing it for many years and that they have run out of 'low-hanging fruit', and any future improvements will be incremental rather than transformational.

Perhaps this reflects the finding that just 14% of employees are now satisfied with their pay increase because it reflects their own performance; this compares with 24% in 2010. Given that pay budgets have been so small since the start of the decade, it must have become increasingly difficult for many employers to adequately reflect employee achievement through salary increases.

One approach to deal with this challenge is to skew significantly limited rewards towards high-achievers. However, after many years of performance-related pay, most employers will find few poor performers (in absolute terms) from whom money can be taken for star performers. If most decisions are going to be based on relative performance, there will be employee relations consequences of taking reward away from those whose performance has been perfectly acceptable so as to give it to those few judged as the gifted and talented. Also, as work becomes increasingly more of a collaborative effort in our knowledge and innovation-based economy, focusing a significant chunk of the reward budget on those perceived as exceptional performers could inadvertently encourage the wrong type of employee behaviours.

That's not to say that we shouldn't bother about looking for productivity improvements or rewarding good performance. While many ways of boosting performance may now only be marginal, especially in sectors subject to legal requirements, if we can make enough small changes, we will significantly boost our productivity. Comparing ourselves with Germany, France or the USA shows that there is still scope for performance improvements. Similarly, when it comes to rewarding success, we need a broader understanding of what we mean by, and how we measure and assess, performance as well as linking it to team and organisational achievement rather than just on the individual.

Another way that employers have been able to encourage their employees to contribute more to their pension is by matching any extra contributions the employee makes. Just under two-fifths of respondents work for an employer that increases the contributions they make to an employee's pension if the employee increases their own contribution. Such arrangements are more common for those working in the private sector (51%) and covered by DC plans (55%).

The evidence suggests that such incentives work: 66% of employees say the employer match encourages them to up their contributions. Of these, 62% pay in the maximum to get the highest employer contribution possible, while 38% contribute somewhere between above the minimum but below the maximum. We would encourage the Government not to change the way pension contributions are treated in tax terms because this is likely to reduce the ability of such initiatives to encourage employees to save more. While such arrangements encourage high-earners, they also encourage low- and moderate-earners to save more, though not to the same extent.

‘In 2015, 18% of employers report that 15% or more of their workforce is currently aged 60 and over; by 2020 this proportion is predicted to climb to 28%.’

Of course, improving productivity will not only help employees and employers afford to increase their pension contributions, it will also help them pay for the new National Living Wage, though almost one in four low-paid workers questioned don’t think that this measure will result in a pay rise for them. The good news is that among those employers that have increased salaries by more than 2% in 2015, 28% have been able to pay for this through productivity improvements.

An additional challenge to improving productivity could be the increasing age of the workforce. In 2015, 18% of employers report that 15% or more of their workforce is currently aged 60 and over; by 2020 this proportion is predicted to climb to 28%. In addition, employees predict that the age at which they can retire will be somewhere between 65 and 67, while they expect the state pension age to climb to 68 by 2030 and to 70 by 2040. To cope with people wanting to or having to work for longer, employers will need to review such people management practices as work and job design to help their older workers remain productive as well as accommodate any requirements for flexible working.

Looking ahead, it’s going to be a busy time for many of us responsible for employee reward. On the pay front, we have to deal with the consequences arising from the new National Living Wage, gender pay gap reporting, holiday pay calculations and the apprenticeship levy. On the benefit front, we have both automatic pension enrolment and re-enrolment and the consequences of the cuts in the annual and lifetime pension allowances. There will also be compliance issues, such as concerning the clawback of bonuses in the financial sector, or managing within the Government’s public sector pay policy. We could see further possible reward change with reform to the way that pension contributions are taxed and a Brexit vote in June.

While all these transactions issues are important in ensuring that we pay the right people, the right amounts, in the right way, at the right time, where reward and people managers will be able to create value for their organisations is by finding the time to focus on the transformational aspects. We should be asking ourselves whether our organisations are rewarding and recognising the right achievements, behaviours and skills, in the right way, at the right time needed for business success as well as promoting employee well-being.

Charles Cotton
CIPD Adviser for Performance and Reward

Summary of key findings

The eighth annual survey of employee attitudes to pay is based on a survey of 2,074 working adults, across all industrial sectors.

The survey was carried out between 10 December and 22 December 2015 and is representative of the UK workforce in relation to sector, size and industry type. The findings are primarily analysed by sector, organisational size, managerial position and pay.

Where patterns emerge, the findings are further analysed by region, gender and age. Within the report net scores have been used to display results: these are calculated by subtracting the percentage of respondents who say something positive from the percentage who say something negative. Net scores measure the strength of the direction of feeling and therefore give a more accurate assessment than simple agreement scores: 100 is the highest possible score and –100 is the lowest.

In addition, the findings are supplemented by data from the CIPD's winter 2015–16 *Labour Market Outlook* survey of 1,007 employers. This survey was carried out between 1 December and 24 December 2015 and is again representative of the UK in relation to sector, size and industry type.

Pay fails to take off in 2015...

- Despite economic growth in 2015, slightly fewer employees got an increase in 2015 (51%) than did in 2014 (53%); this is down on the 67% recorded in 2008. Voluntary sector workers have been more likely to get a pay rise (53%) than private sector (52%) and public sector (44%) staff. Compared with 2014, the proportion of private sector workers getting an increase has fallen from 57% to 52%.

- By region, those employed in Scotland (63%), the East Midlands (57%) and the West Midlands (56%) are more likely to have seen their pay go up than those working in the north-east (44%) and north-west (43%) of England.

- Among those who have got a pay rise, the typical (median) size is 2% (the same as 2014 and 2013). The average (mean) increase is 2.94%, higher in the private sector (3.42%). Among our sample, 33% of all workers saw their salary grow at the same, or at a higher, rate than the increase in the cost of living as measured by RPI, while 17% received a pay rise less than RPI, the remainder either had a pay freeze (46%), pay cut (2%) or can't remember (2%).

- The above picture is mirrored by findings from the CIPD's winter 2015–16 *Labour Market Outlook*. It finds that 48% of employers have increased salaries in 2015, up slightly on the 45% in 2014. Among those employers who have improved pay, the median rise is 2% (2.95% mean).

- Of those surveyed, 29% work for an employer that operates a cash bonus (37% in the private sector) and 75% of those eligible for a bonus award got one in 2015.

...but employee pay rise satisfaction grows....

- Among those who have received a pay rise, the net satisfaction score is +42 in 2015, slightly higher than the +37 recorded in 2014 and the +39 in 2013. The main explanations given by employees for satisfaction with their salary increase are: it reflects the state of the economy (22%), it has kept pace with the cost of living (21%) and it is higher than last year's rise (18%).

- The main explanations given for salary-increase dissatisfaction are: it has not kept pace with the cost of living (50%), it did not reflect how well they had performed at work (27%) and their pay is below what they could get elsewhere for doing the same job (21%).

- Overall, the net satisfaction score with the employer's pay decision (including pay increases, freezes and cuts) currently sits at 0, the same score as in 2014.

… and slightly more employees expect a pay increase in 2016

- Two-thirds of employees (66%) predict that they will receive a pay rise in the next 12 months, slightly up on the 65% recorded in 2014.
- Of those forecasting a rise, 36% expect the same pay increase as they received in 2015, 21% expect a higher one and 6% a lower rise. Twenty-four per cent of private sector workers are predicting a higher pay rise in 2016, as are those: working in the east of England (30%); working in finance (38%); and paid more than £49,000 a year (30%).
- Among employees predicting a pay rise for themselves in 2016, the median increase is 2%. The mean rise is 3.8%, or 4.33% in the private sector.
- However, 26% expect no salary growth in 2016. Those envisaging no pay progression are more likely to be: working in the public sector (30%); aged 55 or over (25%); based in the north-west of England (26%); and earning less than £13,600 (26%).
- The CIPD's winter 2015–16 *Labour Market Outlook* finds that 82% of employers anticipate carrying out a pay review in 2016, while 18% are looking at postponing it.
- Of those covered by a bonus plan, 90% of those questioned think they'll get one in the next 12 months (up on the 63% recorded in 2014), with 17% predicting a higher bonus and 33% forecasting the same-sized bonus as the one they got in 2015.

More workers are now in a workplace pension…

- Three-fifths (66%) of employees are now saving through a workplace pension scheme (if we exclude those earning less than £10,000 – and are now not eligible to be automatically enrolled – 72% of workers are in a pension), up on the 61% recorded in 2013.
- Pension membership varies by sector (57% of private sector employees are in) and by pension plan type (69% of public sector respondents are defined benefit pension scheme members). By age, those aged 18–24 are least likely to be in a pension (36%) and those aged 35–44 are most likely to be in one (77%). By region, Welsh-based workers are less likely (59%), while those in the north-east of England are more likely (84%), to be in a workplace pension plan.
- Awareness among members of defined benefit (DB) arrangements about how much they (68% know) and their employer (56%) is contributing to the plan is lower than the level of awareness among members of defined contribution schemes (84% and 83% respectively). The average employer contribution to a DB plan is 8%, and 6% to a defined contribution (DC) arrangement, while the average employee contribution is 6% in a DB scheme and 5% in a DC plan.
- Some employers increase the contributions they make to an employee's pension if the employee increases their own contribution. Just under two-fifths (37%) of respondents work for an employer that offers this facility, especially those working in the private (51%) and voluntary (41%) sectors and those covered by DC plans (55%).
- Such schemes have an impact, with 66% reporting that it encourages them to pay in more and 41% making the maximum contribution to get the highest employer contribution possible, while a further 25% contribute somewhere between above the minimum and below the maximum.

…but employers are feeling the pinch

- According to the CIPD's winter 2015–16 *Labour Market Outlook*, the average (mean) percentage of the total pay and benefit spend accounted for by pension contributions is 9.34%, ranging from 7.31% in the voluntary sector to 13.52% in the public sector. However, a surprising number report that they either don't know (36%) or that their employer does not collect or analyse this data (10%).
- The CIPD's winter 2015–16 *Labour Market Outlook* also suggests that employers are contributing 5.16% to their pension plans (ranging from 4.07% in the private sector to 9.05% in the public sector). Interestingly, employers contribute on average 4.45% to DC schemes used to automatically enrol staff and 6.52% to DC schemes that aren't use to enrol staff automatically.
- Looking at the cost implications of automatic pension enrolment,

30% of employers report that there have been none. Among the 70% who report that there has been a noticeable impact, the most common responses have been: taking lower profits/absorbing costs (21%); just paying the statutory minimum pension contributions for automatically enrolled staff (15%); improving efficiency and productivity (12%); reducing or capping wage growth (10%); and cutting other pay elements (such as overtime rates or bonuses). Smaller employers have been more likely to take lower profits (32%), just pay the minimum required (18%) and stop or cut wage growth (14%)

- By contrast, most employees (58%) report that being enrolled into a pension has had no noticeable impact on their spending and saving, while a further 15% say that they have not needed to make any changes because their pay has increased since being enrolled. Among those who do report making an adjustment, 16% say they have reduced consumption while 9% have cut back on their non-pension saving.

Employees accept that they may have to wait longer before they retire or get a state pension...

- The average age at which employees expect to retire is 66; those who are younger and older expect to work for longer (those aged 24 or below believe they will retire at 67, while those aged 55 and above think they'll go at 66), as do those who earn less (those getting less than £22,500 expect to go at 67, while those earning more predict they'll be able to leave at 65).
- While most employees assume that they will be able to retire from work by 65, most forecast that the age at which workers will be able to receive the state pension will rise within the next 15 years to 70.

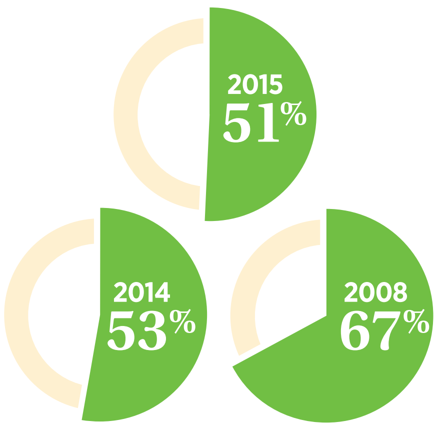
...and employers recognise an ageing workforce

- The proportion of over-60s in the workforces of our respondents is expected to grow significantly between now and 2020. While 18% of employers say that the over-60s account for at least 15% of their workforce now, 28% of employees predict the same by 2020. The question is whether employers have the people management policies and practices in place to cope with more over-60s in their workforce.

Employees still don't feel better off

- Despite low inflation over the past 12 months, more employees (22%) report a decline in their living standards between 2014 and 2015 than say it has improved (16%). This is broadly in line with what employees predicted would happen back in December 2014 (23% forecast a fall and 18% an improvement).
- Looking towards 2016, 16% think that their living standards will improve, while 22% think they will decline. The most hopeful about improving their living standards are those aged between 18 and 34, based in London, working in the private sector, earning more than £49,000 and predicting a higher pay rise in 2016 than they got in 2015.

1 Current employee pay



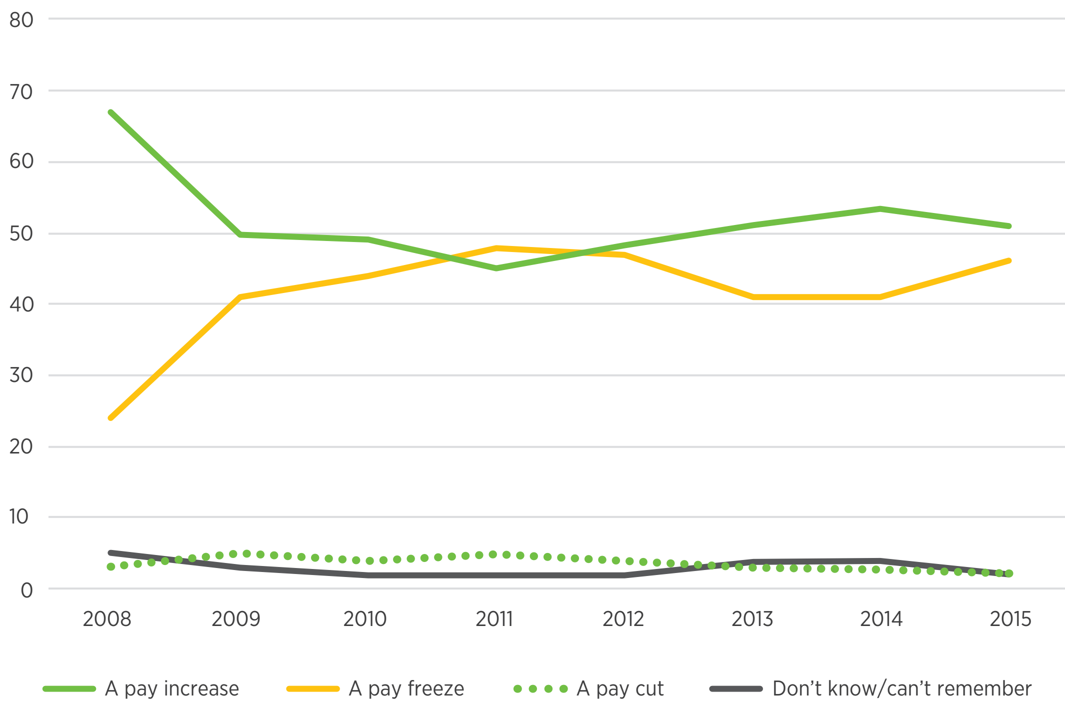
Just over half of employees (51%) surveyed got a pay rise in 2015, down on the 53% recorded in 2014 and significantly below the 67% recorded in 2008.

Just over half of employees (51%) surveyed got a pay rise in 2015, down on the 53% recorded in 2014 (see Figure 1) and significantly below the 67% recorded in 2008. Table 1 shows that while the proportion of private sector staff enjoying a pay rise had dropped between December 2014 and December 2015, the percentage which has seen their pay frozen has grown.

Workers aged between 18 and 34 are more likely to have had a pay rise (56%), while those aged 55 or older have been less likely (45%) to get a salary increase. Those working for a larger employer (250+ staff) are more likely to have had a pay rise in 2015 (58%) than those working for a micro (33%) or small (37%) employer.

Higher-paid staff (those earning more than £49,000 per annum) are more likely to have had a salary rise

Figure 1: **Pay decisions since 2008 (%)**



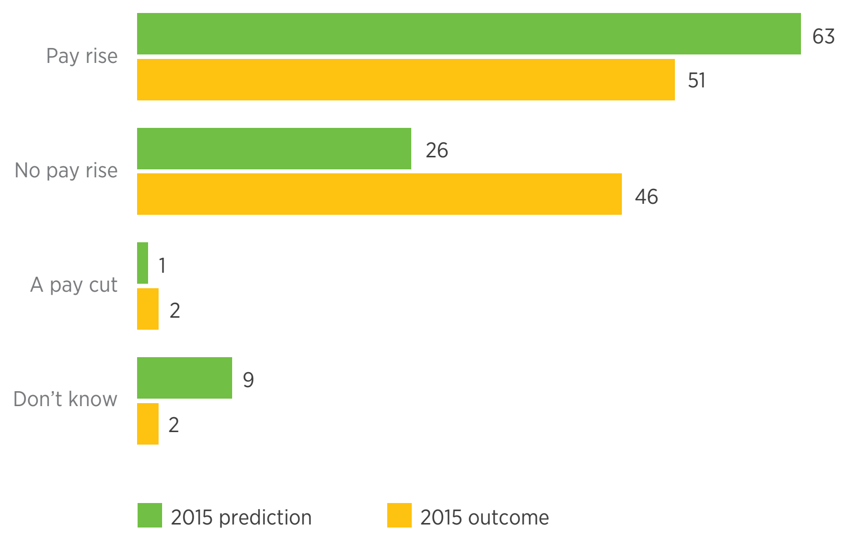
Base: All working respondents

Table 1: **Pay decision over time, by sector (%)**

	2008				2009				2010				2011				2012				2013				2014				2015			
	Increase	Freeze	Cut	DK/CR	Increase	Freeze	Cut	DK/CR	Increase	Freeze	Cut	DK/CR	Increase	Freeze	Cut	DK/CR	Increase	Freeze	Cut	DK/CR	Increase	Freeze	Cut	DK/CR	Increase	Freeze	Cut	DK/CR	Increase	Freeze	Cut	DK/CR
Private sector	64	27	4	5	40	51	7	2	50	43	5	2	51	42	6	2	56	39	3	2	54	40	2	4	57	38	2	3	52	45	1	2
Public sector	73	19	2	6	76	17	2	4	42	49	3	5	24	70	5	2	20	72	8	1	43	49	5	3	44	49	4	3	45	49	3	3
Voluntary and not-for-profit sectors	79	15	0	5	62	34	3	1	61	36	1	2	45	48	5	2	48	50	2	1	51	40	6	3	53	40	0	7	53	44	2	1

Base: All working respondents

Figure 2: **Pay decision prediction for 2015 and pay decision received in 2015 (%)**



Base: All working respondents (2015: n=2,037; 2014: n=2,208)

(69%) than lower-paid staff (receiving between £13,601 and £22,500) (46%). By region, those employed in Scotland (63%), the East Midlands (57%) and the West Midlands (56%) have been more likely to see their pay go up than those working in the north-east (44%) and north-west of England (43%).

When comparing pay predictions for 2015 made by employees questioned in 2014 with actual pay outcomes reported in 2015 (Figure 2), there is a significant difference between the proportions predicting a pay rise in 2015 and the proportions actually getting one. Similarly, while only 26% thought they would have a pay freeze in 2015, 46% actually had one. However, it should be noted that the employees who were asked what has happened to their pay in 2015 are not the same individuals who were asked in 2014 to make predictions for 2015. Employees in all three sectors were over-optimistic in their predictions for 2015. For instance, 66% of those working in the private sector expected a pay rise, but only 52% have got one; similarly, 58% of public sector staff thought that their salaries would increase in 2015 but just 46% have got a rise.

The median increase among those workers who have enjoyed a pay rise is 2.0%, the same level as reported last year (see Table 2). It is higher for: the young (3.13% for those aged 18–24 and 2.75% for those aged 25–34); high-earners (2.46%); and those working in small organisations (3.0%). The mean increase is higher at 2.94%, impacted by the above-average rises recorded by staff in such sectors as real estate, renting and business activities (4.18%) and finance (3.8%).

The Retail Prices Index for December 2015 stood at 1.2%; based on this threshold, 33% of all workers have enjoyed a pay rise that matched or exceeded this level (40% of all private sector workers and 11% of all public sector staff). A further 17% have had a pay rise, but it was below 1.2% (10% of all private sector workers, 34% of all public sector staff). Of those who got a pay rise of 1.2% or more, 58% were satisfied with the pay decision compared with 16% who got a pay rise less than this percentage.

Reflecting these findings, the CIPD's winter 2015–16 *Labour Market Outlook* survey of over 1,000 employers finds that 48% of them have increased pay in 2015 (up slightly on the 45% in 2014). While 14% have decided to freeze it, when one takes into account the 27% who have not reviewed salary levels in 2015, the proportion not increasing pay increases to 41%. On a more positive note, just 1% of employers questioned have cut rates. The remainder (10%) don't know if there has been a pay decision. Among those employers who have increased pay in 2015, the median rise is 2% (2.95% mean), similar to the increases reported by employees.

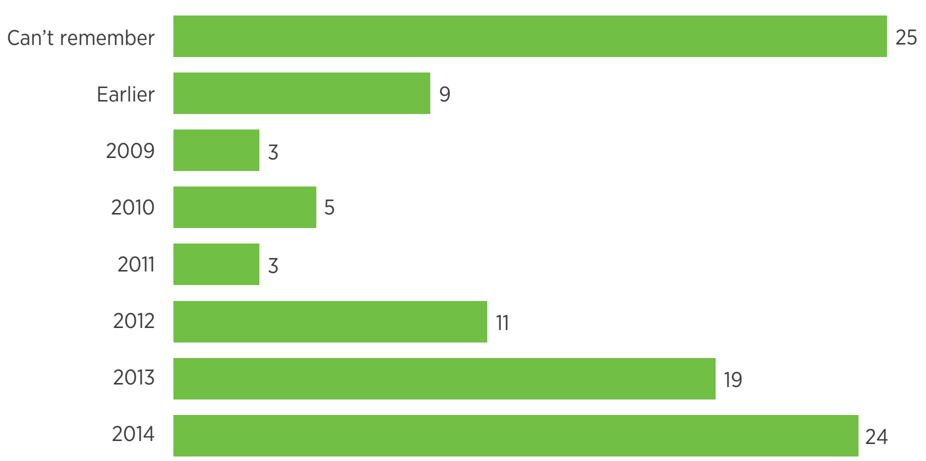
When those employees who didn't get a pay rise in 2015 were asked when they last received an increase, Figure 3 reveals that 24% had not had one since 2014, while a further 19% reported that they had not seen their pay go up since 2013.

***Table 2:* Pay increase in percentage terms (%) of base pay**

	All (n=1,032)	Private sector (n=734)	Public sector (n=213)	Voluntary sector (n=66)
Mean	2.94	3.42	1.75	1.90
Upper quartile	3.00	4.00	1.00	2.00
Median	2.00	2.00	1.00	2.00
Lower quartile	1.00	1.50	1.00	1.00

Base: All working adults

***Figure 3:* Period of last pay increase (%)**



Base: All working respondents and whose pay is frozen (n=931)

2 Satisfaction with the employer pay decision

The net satisfaction with the employer's decision to increase, freeze or cut pay among those questioned is 0, the same figure as in 2014. Net satisfaction with the pay decision for those who had a salary rise is +42, compared with –42 for those who had a wage freeze and –68 for those who had a pay cut.

There has been a slight increase in the net satisfaction score with their employer's pay decision among private sector employees (+14 in 2014 and +18 in 2015). However, it has fallen both in the public sector (from –51 in 2014 to –53 in 2015) and in the voluntary sector (from +35 to +7).

Over one-fifth (22%) of employees are satisfied with their pay increase as they feel it reflects the state of the economy. Table 3 also reveals that more (21%) are now satisfied with their pay award because it has kept pace with the cost of living, compared with 2013 (14%). However, pay reflecting employee performance has become less of a driver of satisfaction since 2012, perhaps reflecting that the typical pay review budget has become too small for most employers to adequately reflect employee achievement.

Twenty-five per cent of those whose pay was frozen are satisfied with this decision because it reflected the state of the economy, 28% are satisfied because it reflects how much money their organisation had available to make employee awards, while 26% are satisfied because their pay is at or above what they could get elsewhere for doing the same job.

Table 3: **Reasons for satisfaction with pay increase (%)**

	2009 (n=902)	2010 (n=1,072)	2011 (n=949)	2012 (n=1,020)	2013 (n=917)	2014 (n=799)	2015 (n=719)
It reflected the state of the economy.	24	21	27	26	21	20	22
It kept pace with increases in the cost of living/inflation.	31	22	16	17	14	19	21
It was more than I received last year.*	–	19	19	16	20	19	18
My pay is at or above what I could get elsewhere for doing the same job.	18	14	14	16	17	18	15
It reflected how much money the organisation had to make a pay award.	19	15	16	19	14	16	15
It reflected how well I had performed at work.	24	24	19	21	20	17	14
It reflected my experience.	12	11	7	10	8	7	8
It did not discriminate against me because of my age, race, religion, disability or gender.	12	9	7	8	7	8	8

Note: Only answer codes with at least 10% response in 2009 or at least 8% response in 2015 are shown. * Not asked in 2009.
Base: All working respondents (excluding owner/proprietor) receiving a pay rise who were satisfied with it

As Figure 4 shows, the most common explanation for private sector satisfaction is that the pay increase has kept pace with the cost of living (22%); by contrast, in the public sector it is because the increase reflects the state of the economy (35%), while in the voluntary sector it is how much money the organisation has to raise pay (28%).

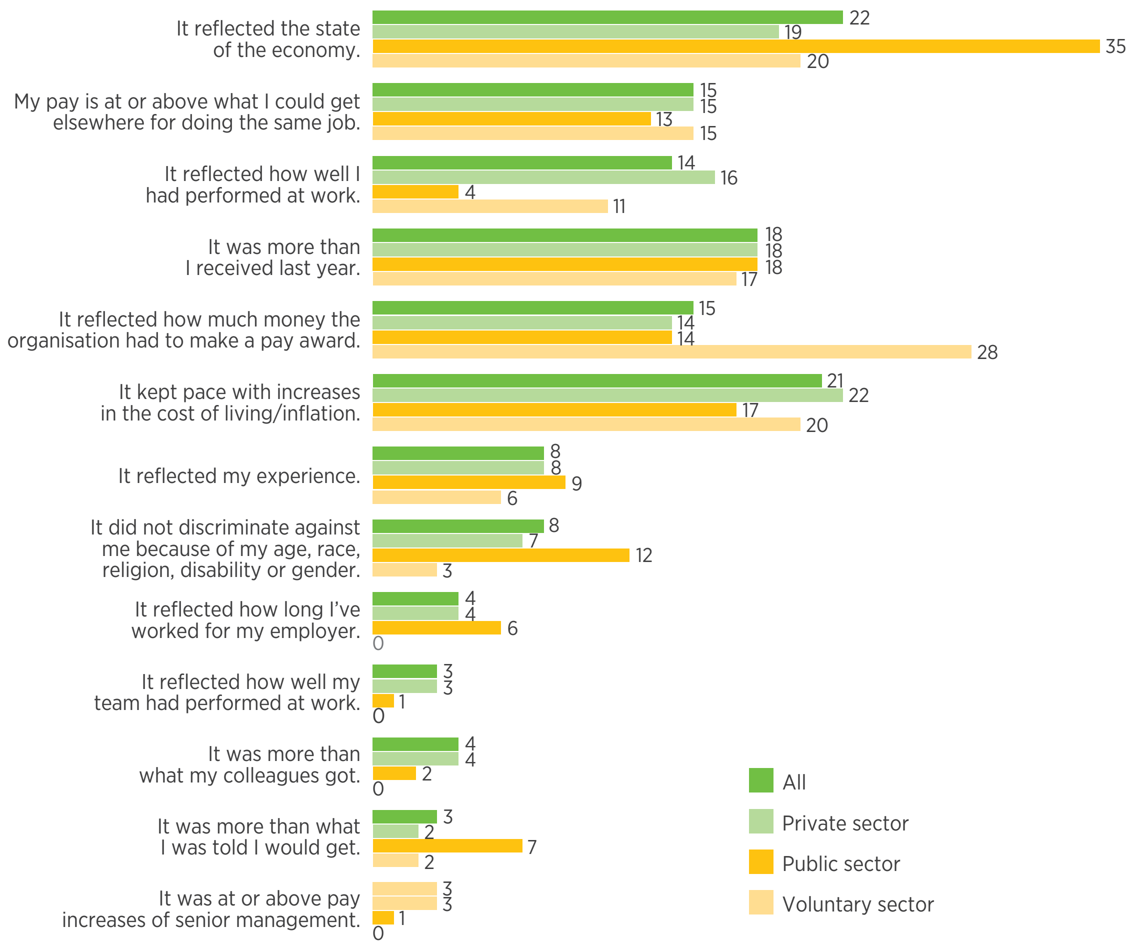
Table 4 shows that the most common reason for pay increase dissatisfaction is that the rise did not match increases in the cost of living or the rate of inflation. However, the proportion citing this explanation has fallen since 2013, reflecting the decline in RPI, which has dropped over this period. While the economy has grown in 2015, more employees are dissatisfied that this is not reflected in their pay packets. Similarly, more feel that their pay rise does not reflect their work contribution. It is noteworthy that the performance–pay link is more of a cause of dissatisfaction than satisfaction.

Among those whose pay has been either frozen (50%) or cut (43%), it's the increase in the cost of living that has driven dissatisfaction. After this, 29% of those experiencing a pay cut and 23% experiencing a pay freeze are dissatisfied because it did not reflect their performance.

The CIPD's winter 2015–16 *Labour Market Outlook* finds that 32% of employers increased salary levels by more than 2% in 2015. By sector, private sector employers have been more likely to do this (39%). Figure 5 reveals the most common explanations for doing so.

By contrast, 32% of employers have been unable to increase pay by more than 2% in 2015. The most common explanations given are: the organisation's inability to pay more (36%); restraint on public sector pay (30%); absorbing the cost of the introduction of pension auto-enrolment (17%, rising to 24% in the private sector); and the increase in the rate of inflation (17%).

Figure 4: **Satisfaction with pay increase, by sector (%)**



Base: All working respondents receiving a pay rise who were satisfied with it (n=719)

Table 4: **Reasons for dissatisfaction with pay increase (%)**

	2009 (n=201)	2010 (n=244)	2011 (n=260)	2012 (n=320)	2013 (n=397)	2014 (n=360)	2015 (n=290)
It did not keep pace with increases in the cost of living/ inflation.	47	52	62	56	65	57	50
It did not reflect how well I had performed at work.	32	27	29	27	19	23	27
My pay is below what I could get elsewhere for doing the same job.	26	19	17	16	15	17	21
It was below the pay increase of senior management.	14	10	14	10	12	9	12
It did not reflect the state of the economy.	4	4	3	8	11	11	15
It did not reflect my experience.	16	8	9	17	9	11	11
It did not reflect how much money the organisation had to make a pay award.	10	14	11	13	8	12	8
It did not reflect how well my team has performed at work.	12	8	10	10	8	11	9

Note: Only answer codes with at least 10% response in 2009 or at least 8% response in 2015 are shown.
Base: All working respondents (excluding owner/proprietor) receiving a pay rise who were not satisfied with it

Figure 5: **Why employers increased salary levels by 2% or more (%)**

Source: CIPD winter 2015–16 *Labour Market Outlook*

3 Pay forecasts for 2016

Workers expecting a pay rise

66%

Two-thirds (66%) of workers expect a pay rise in the next 12 months.

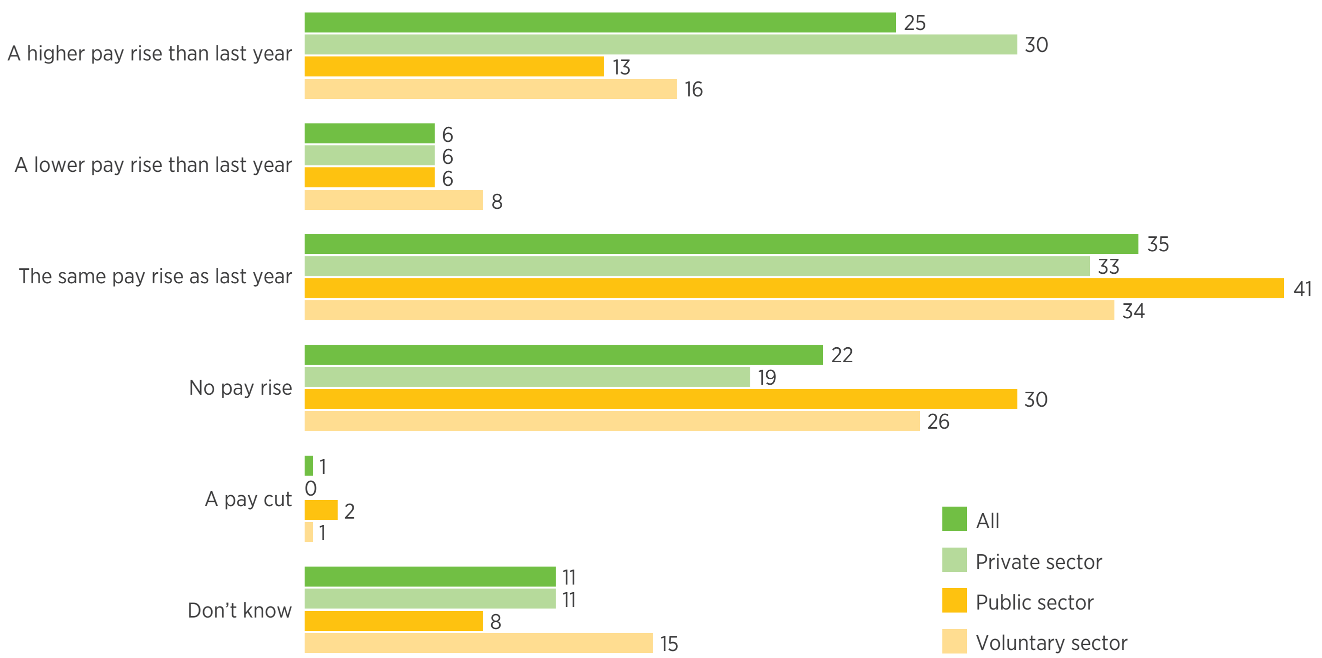
Two-thirds (66%) of workers expect a pay rise in the next 12 months. Figure 6 shows that 22% of employees forecast no growth (down from a peak of 34% in both 2012 and 2013), while 35% predict a salary increase that matches the one received in 2015. One in four anticipate a higher pay rise (19% in 2013).

Three in ten (30%) private sector workers are predicting a higher pay rise in 2016, as are those: aged 18–24 (59%); based in the east of England (30%); working in finance (38%); and being paid more than £49,000 a year (30%). By contrast, those envisaging no pay rise are more likely to be: working in the public sector (30%); aged 55 or over (25%); based in the north-west of England (26%); and earning less than £13,600 (26%).

Confidence in getting a pay rise in the next year has increased, as shown in Figure 7. In 2009, 67% of employees predicted that they would receive a salary increase in the following year, but by 2013 just 54% thought this. However, by 2015, 66% think they'll get an increase in 2016.

Past experience can have an impact on employee pay forecasts. Among those who received a pay rise in 2015, 75% expect to receive one again this year; and 31% of those

Figure 6: **Predicted pay decision in 2016, by sector (%)**



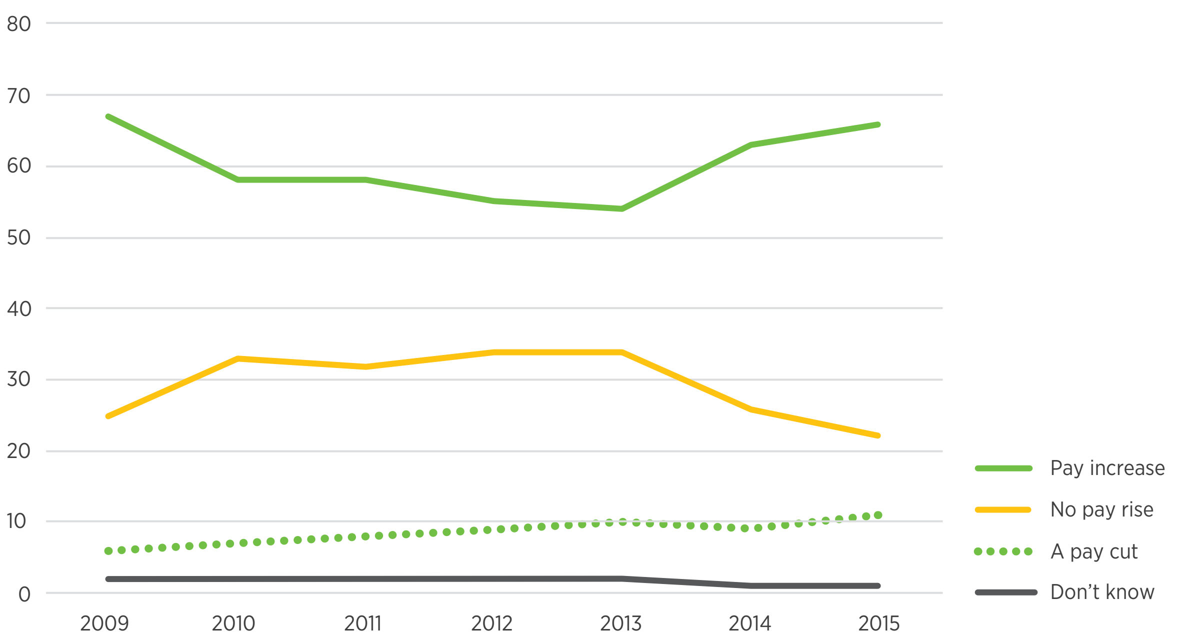
Base: All working respondents (n=2,037)

whose pay was frozen last year expect the same treatment from their employer in 2016. Three-fifths (63%) of employees who claim not to have had a pay rise since 2009 report that they do not expect any salary increase in the coming 12 months.

The mean pay rise expected for 2016 is 3.80% (2.59% predicted for 2015) and the median increase is 2.0%, the same as forecast for 2015. The median pay increase in the private sector is expected to be 2.0%, and 1.0% in the public sector. The size of the 2015 uplift, as measured by the mean, has risen in the private (from 2.76%) and public (1.55%) sectors, indicating that there are more higher forecasts affecting the overall prediction and that more people are predicting a larger pay rise. Overall, pay expectations for this year are similar to what employees got in 2015. Therefore, while more workers hope to get a pay rise in 2016, most think that this increase will be similar to 2015.

The CIPD's winter 2015–16 *Labour Market Outlook* finds that 82% of employers anticipate carrying out a pay review in 2016 and 18% are looking at postponing it. Among those planning a review this year, 39% will increase pay, 11% will freeze it (this proportion could increase to 29% if those postponing their pay review don't eventually carry one out), while 1% plan to cut it. However, 48% of employers are unsure at this stage as to whether or not they will increase pay in 2016. Among those planning to increase salaries this year, the median forecast is 2%.

Figure 7: **Changes in expectations about next year's pay rise, 2009–15 (%)**



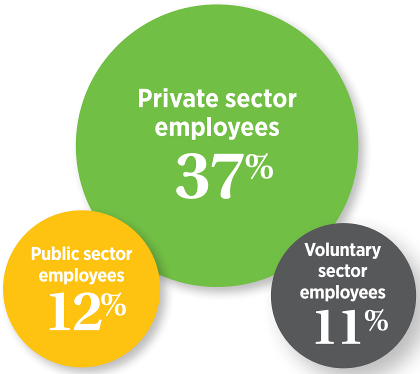
Base: All working respondents (2015: n=2,037; 2014: n=2,206; 2013: n=2,635; 2012: n=3,016; 2011: n=3,056; 2010: n=3,083; 2009: n=2,704)

Table 5: **Predicted pay rise forecast for 2015, by sector (%)**

	All (n=1,362)	Private sector (n=982)	Public sector (n=282)	Voluntary sector (n=73)
Mean	3.80	4.33	2.24	3.45
Upper quartile	3.00	4.00	1.00	2.00
Median	2.00	2.00	1.00	2.00
Lower quartile	1.00	1.00	1.00	1.00

All working respondents who expect a pay increase in 2015 (n=1,362)

4 Cash bonuses in 2015 and forecasts for 2016



Just under three in ten (29%) employees are covered by a cash bonus scheme. While 37% of private sector employees have such an arrangement, only 12% of those working in the public sector and 11% of those in the voluntary sector are similarly covered.

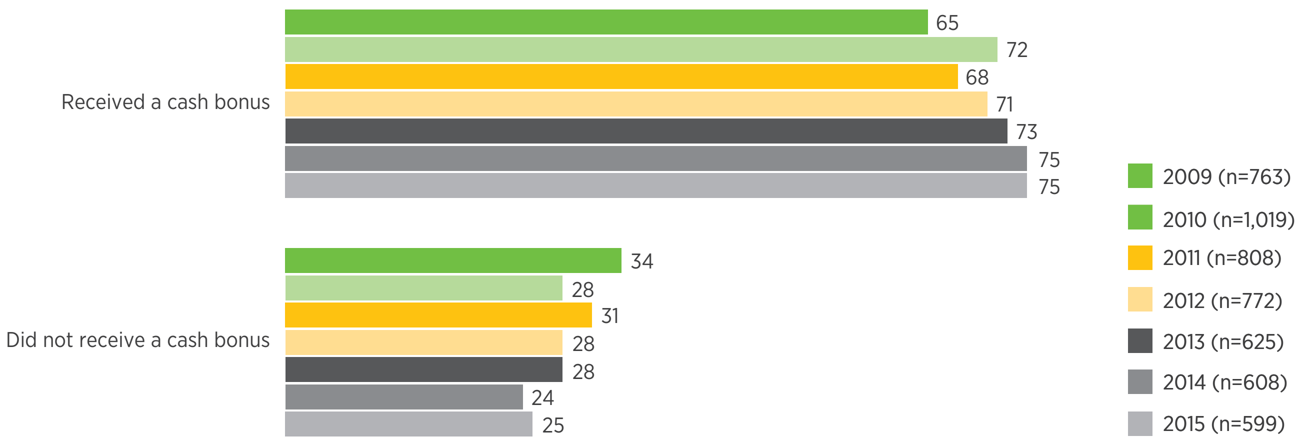
Just under three in ten (29%) employees are covered by a cash bonus scheme. While 37% of private sector employees have such an arrangement, only 12% of those working in the public sector and 11% of those in the voluntary sector are similarly covered.

Those more likely to be covered by a bonus work: in finance (56%); for large organisations (33%); in London and the south-east of England (35%); and for higher pay (62% of those earning more than £49,000).

Up until 2015, Figure 8 shows that the proportion of employees receiving a cash bonus had increased gradually since 2012. This breaks with the pattern of peaks and troughs between 2009 and 2012. Almost four-fifths (77%) of all private sector workers eligible for a cash bonus received one in 2015. This compares with 57% of public sector employees.

Within the private sector, 92% of finance workers eligible for a bonus have got one in 2015, as have 82% of travel, tourism, recreational, cultural and sporting activities staff. Workers aged 18–24 are less likely (57%) than their older co-workers to have received one (over 55: 76%), possibly reflecting that they are more likely to have got a pay rise over this period or have not yet become eligible for the bonus plan.

Figure 8: **Percentage of employees receiving a cash bonus (%)**

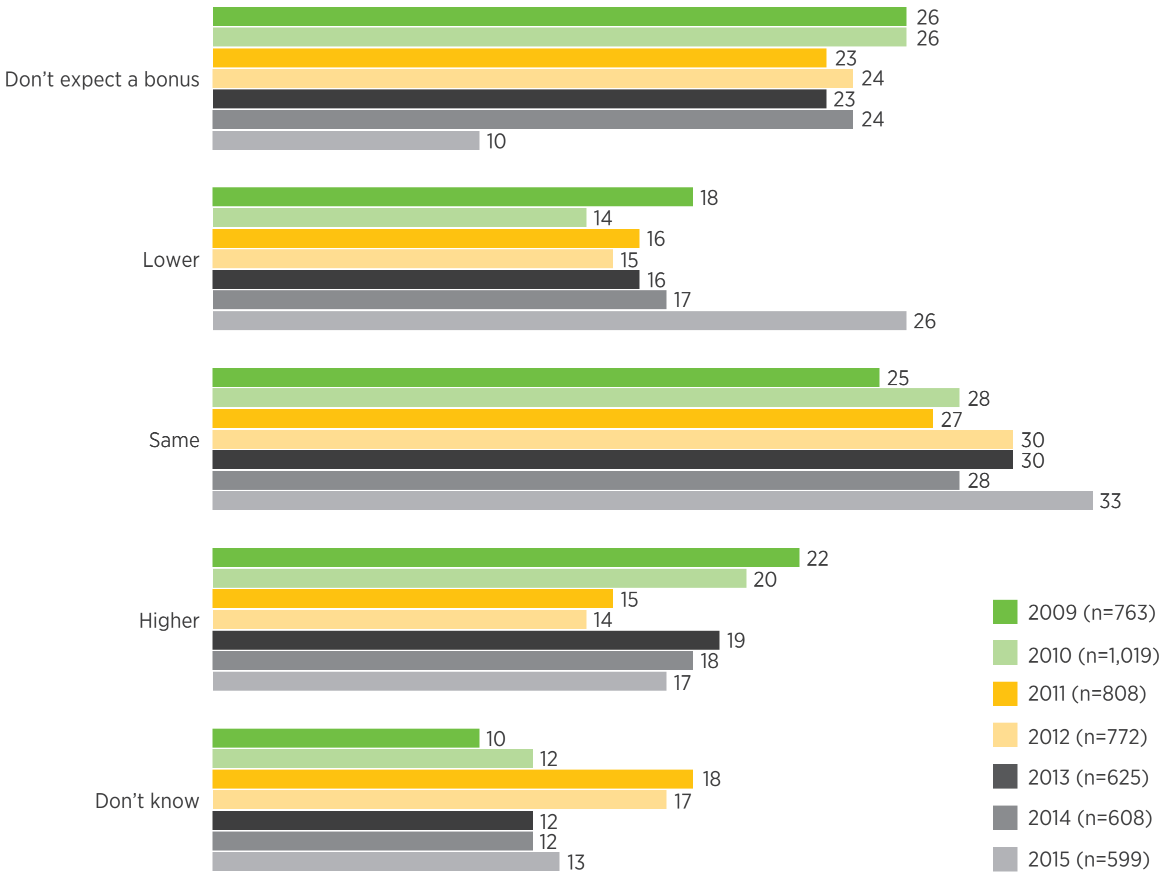


Base: All working respondents whose employers offer a cash bonus scheme

Of those whose pay was frozen in 2015 but were eligible for a bonus, 70% received one, continuing a pattern of peaks and troughs since 2010. In 2014, the proportion was 58%; in 2013 it was 59%, 63% in 2012, 59% in 2011, while in 2010 it was 66%.

Nine in ten (90%) workers covered by a bonus scheme expect to get one in the next 12 months, up on the proportion of those who predicted the same in 2014 (see Figure 9). Those in the private sector are far more optimistic (19%) than those in the public sector (1%) about a higher bonus in 2015.

Figure 9: **Expectation of bonus size in the following year (%)**



Base: All working respondents whose employer has a cash bonus scheme

5 Pensions and retirement

'To date, automatic pension enrolment has been successful in getting more employees into a workplace retirement scheme.'

To date, automatic pension enrolment has been successful in getting more employees into a workplace retirement scheme. Our survey shows that between December 2013 and December 2015, the proportion of workers saving through an employer pension scheme increased from 61% to 66%. If we exclude from our sample all those who are currently not eligible to be automatically enrolled because their salary is below £10,000 a year, the proportion of workers in a pension plan is even higher at 74%. We asked employees how they joined their pension plan and found 55% have been automatically enrolled, 38% had to make a conscious effort to join, while the rest could not recall.

Among those now in a scheme (66%), this ranges by sector (57% of private sector employees are in) and by pension plan type (69% of public sector respondents are defined benefit pension scheme members). By age, those aged 18–24 are least likely to be in a pension (36%) and those aged 35–44 are most likely to be in a scheme (77%).

By region, Welsh-based workers are less likely (59%), and those in the north-east of England are more likely, to be in a workplace pension plan (84%). Pension membership is associated with higher base pay: while 44% of those earning between £10,001 and £13,600 a year are not in a plan, just 11% with a salary of more than £49,000 are not saving. By employer size, 80% of employees working for a micro employer and 54% of those working for a small firm are not in a company plan; by contrast, just 17% of employees working for a large organisation are not in a workplace pension. Women (36%) are more likely not to be in a company plan than men (31%), though this could be due to women being in part-time employment and in low-paid work (42% of women in our sample work part-time, while 33% get a salary lower than £13,600 a year).

However, just because someone is not saving through a workplace pension does not mean that they are not saving at all. Of those employees not in a workplace pension (34%), 17% are saving through a private

Table 6: **The proportion of respondents saving through a workplace pension plan, by sector (%)**

Scheme type	All	Private sector	Public sector	Voluntary sector
Defined benefit	25	11	69	22
Defined contribution	30	37	8	39
Unsure whether defined benefit or defined contribution	11	10	14	15
Not in a workplace pension	34	43	9	24

Base: All working respondents (all: n=2,096; private: n=1,470; public: n=469; voluntary: n=125) personal pension. Those more likely to be saving through a non-workplace pension are: aged 55 or more; earning more than £49,000 a year; or working for either a micro or small employer.

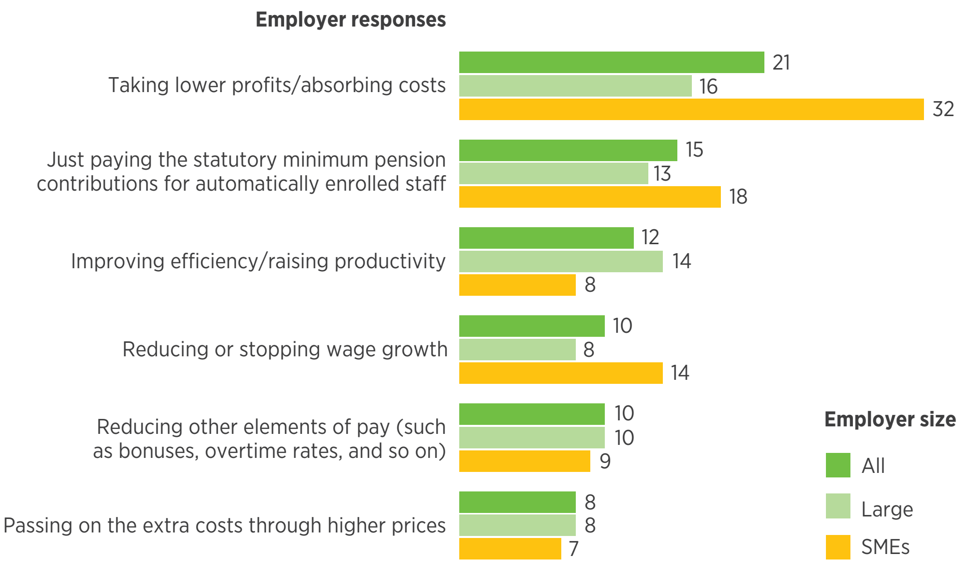
The above findings are mirrored by the CIPD's winter 2015–16 *Labour Market Outlook*, which finds that most organisations have either enrolled eligible workers into a workplace pension (66%), or are in the process of doing so (15%). Those that have not consist of micro and small employers. Of those that have enrolled, or are doing so, the most common approach (61%) is to place employees into a DC scheme (especially in the private sector, 71%), followed by putting them in a DB plan (28%), especially in the public sector (76%).

What has been the impact on the consumption and saving of those automatically enrolled into a workplace pension? Almost three-fifths (58%) report that they have not noticed any change (some of them may only be contributing the legal minimum to the pension), while a further 15% say that they have not needed to make an alteration because their pay has increased. Among those that do report an adjustment, 16% say they have reduced their spending (more likely those aged 45 and over), while 9% have cut back on their non-pension saving. By income group, those earning less than £22,500 have been more likely to cut back on their spending (28%).

How have organisations been responding to the additional costs caused by automatic enrolment? According to the CIPD's winter 2015–16 *Labour Market Outlook*, 30% say that there have been no additional, or only minimal extra, costs due to automatic enrolment. Among the 70% who have seen their cost base increase, the most common responses are shown in Figure 10. While our research on the implementation of the national Living Wage shows that 30% of employees plan to pay for the increase through productivity gains, just 12% of employers have adopted this approach so far to deal with the additional costs of automatic enrolment. Those that have are typically larger employers or those operating in the retail and transport sectors.

By employer size, small and medium-sized employers (SMEs) have been more likely to cope with the cost by accepting lower profits (32%). We can assume that as automatic enrolment is rolled out to more small and micro employers, these firms will probably respond by becoming less profitable, simply meeting the minimum compliance requirements and/or seeking to recoup the cost through pay.

***Figure 10:* How employers are responding to the additional costs from automatic pension enrolment, by employer size (%)**



Source: CIPD winter 2015–16 *Labour Market Outlook*

18–24-year-olds

55 and over

As well as by scheme type, the combined employer and employee pension contribution rates vary by age (the total pension contribution for 18–24-year-olds is 9%, while it is 12% for those aged 55 and over).

Pension contributions

Our research shows that pension awareness among employees is high, with most knowing how much they and their employers are contributing. However, awareness levels are lower among members of defined benefit (DB) arrangements than among those in a defined contribution (DC) plan. Among DB members, 68% know what they are contributing and 56% know what their employer is paying. By contrast, 84% of DC members know what they are contributing and 83% know what their employer is paying in. Our findings suggest that those employers providing a DB scheme could be doing more to communicate the full value of their pension contributions to their employees.

As a proportion of employee salaries, employer (8.24%) and worker (6.4%) pension contributions are higher in DB than DC plans. Table 7 shows employer and employee DC pension contributions.

As well as by scheme type, the combined employer and employee pension contribution rates vary by age (the total pension contribution for 18–24-year-olds is 9%, while it is 12% for those aged 55 and over), by sector (11% private and 16% public), and by salary (9% for £10,001–13,600 and 15% for £49,000 and above).

The CIPD's winter 2015–16 *Labour Market Outlook* finds that the average employer contribution in the private sector is 4.07% while it is 9.05% in the public sector. Interestingly, the mean employer contribution to a DC pension is lower (4.45%) when it is used for automatic enrolment purposes than when it is not (6.52%).

How much are employers spending on their pension plans? Table 8 shows that just over one-third of respondents are unaware, while a further one in ten claim that their organisation doesn't collect this

***Table 7:* Employer and employee DC pension contributions as a proportion of salary (%)**

Percentage of base pay	Employer contributions	Employee contributions
0	3	6
1–1.9	7	8
2–3.9	18	18
4–6.9	31	31
7–9.9	13	11
10–12.9	6	6
13 or more	4	2
Don't know	17	16
Mean contribution	5.67	5.40

Base: All working respondents in a workplace pension scheme data. This may reflect the point that while DC plans sit within HR, DB sits within finance, and the personnel function may not know the costs associated with the DB recovery plan.

Among those who do know their expenditure, those in the public sector (mean 13.52%) report that pension contributions are more likely to be a significant part of the reward spend than those in the voluntary sector (7.31%). Within the private sector, manufacturing (10.68%) and finance (10.58%) employers are among those spending the most on pensions, while those in wholesale, retail and motor trades (8.32%) and social care (8.20%) are among those that spend the least. Similarly, micro, small and medium-sized employers (7.36%) devote less money to pensions than large organisations (10.65%).

Some organisations increase the contributions they make to an employee's pension if the employee increases their own contribution. Just under two-fifths (37%) of respondents work for an employer that offers this. Such arrangements are more common for employees working in the private (51%) and voluntary (41%) sectors and covered by DC plans (55%).

Do employees respond to such an incentive? Yes – 66% report that it does encourage them to pay in more, while 27% report that it makes no difference. Among the 66%, 41% say that they make the maximum contribution to get the highest employer contribution possible, while a further 25% contribute somewhere above the minimum (5%) but below the maximum (6%), with the remainder (14%) contributing at the mid-point between the two.

Table 8: **Percentage of total pay and benefits spend that is accounted for by pension contributions, by sector (%)**

	All	Private sector	Public sector	Voluntary sector
Less than 5%	19	24	2	22
5–9%	18	18	15	28
10–14%	7	6	10	5
15–19%	4	3	7	2
20–24%	2	1	5	0
25–29%	2	2	2	0
30–34%	1	1	2	0
Over 35%	1	0	0	1
Data not collected or analysed	10	10	11	12
Don't know	36	33	47	30
Mean	9.34	8.62	13.52	7.31

Source: CIPD winter 2015–16 *Labour Market Outlook*

Changing work and retirement patterns

Looking to the future, Table 9 shows when employees realistically expect to retire from paid employment. Overall, the data shows 28% do not know when they can retire. Women (32%), those employed in the private sector (31%) and those being paid less than £10,000 a year (44%) are more unsure than other groups about when they will stop work.

Those aged between 18 and 34 think they will carry on until age 67 (median), while those aged between 35 and 54 predict that they'll retire at 65. Among those aged 55 or over, the forecast retirement age is 66, suggesting that those nearing retirement are more likely to estimate a higher age. While public sector staff hope to stop work at 65, private sector staff believe they will carry on until 66. There is also a noticeable north–south divide, with those in London, the south-east, the south-west and the east of England expecting to retire at 66, while those in the rest of the country predict they will be able to stop work at 65. Similarly there is a salary divide, with those getting less than £22,500 expecting to retire at 67, while those getting more than £22,500 forecast that they'll be able to leave at 65.

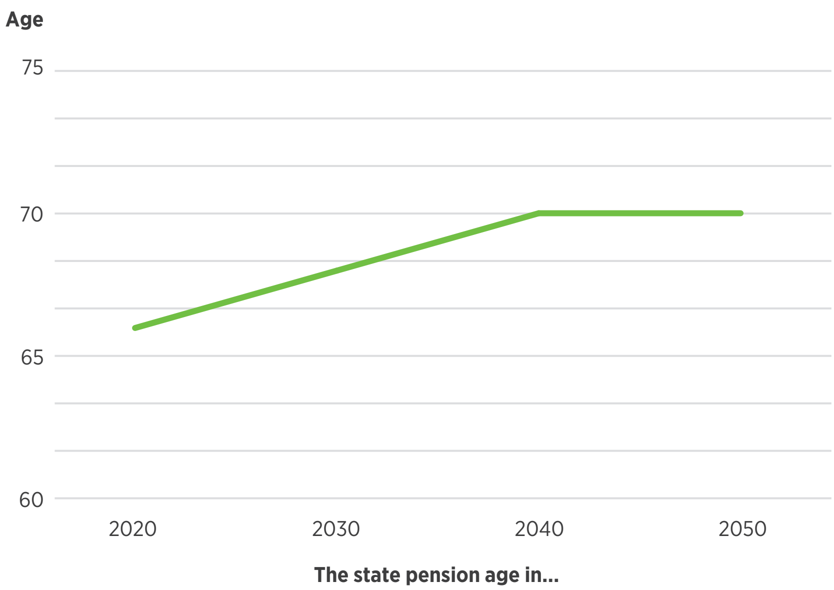
Figure 11 shows that while most employees predict that they will

Table 9: **Age at which employees expect to retire from paid employment (%)**

Age	All	Men	Women	Private	Public	Voluntary
Under 60	12	12	13	11	17	9
61–65	24	25	23	23	28	18
66–70	30	32	28	28	32	41
Over 70	5	7	4	7	5	8
Don't know	28	24	32	31	19	25
Median	65	66	65	66	65	67
Mean	66.24	66.36	66.10	66.5	65.32	67.37

Base: All working respondents

Figure 11: **Future state pension ages, (%)**



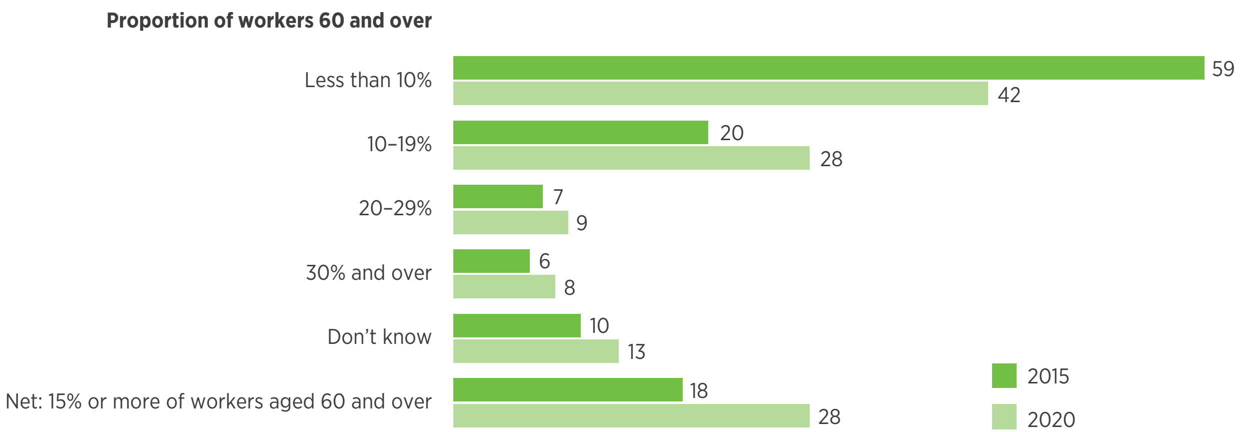
Base: All working respondents

be able to retire from work by 65, most predict that the age at which workers will be able to receive the state pension will increase from 66 to 68 by 2030 and by another two years between 2030 and 2040. Given state finances, an ageing population and increasing life expectancy, such forecasts may not be so wide of the mark. However, if workers expect to finish work before they become eligible for the state pension, the question is, how will they supplement their income?

Perhaps they will expect their workplace pension to provide an income for a few years before they become eligible for the state pension. Or they may revise upwards the age at which they expect to retire as they become older, with implications for people management, development and reward as well as for productivity. It would make sense for the Government to invest in communication that explains to staff what they can get from the state as a pension and by when.

Employers recognise that the average age of a worker is increasing. Figure 12 shows the proportion of over-60s in the workforce among our respondents and how they expect the proportion to change between December 2015 and December 2020. For instance, 59% of employers say that over-60s currently make up less than 10% of their employees. However, this proportion will fall to 42% by 2020 as respondents predict that there will be more people over the age of 60 in their workforce. The question is whether employers have the people management policies and practices in place to cope with more over-60s in their workforce.

Figure 12: **The proportion of employees who are 60 and over (%)**



Source: CIPD winter 2015–16 *Labour Market Outlook*

6 Living standards

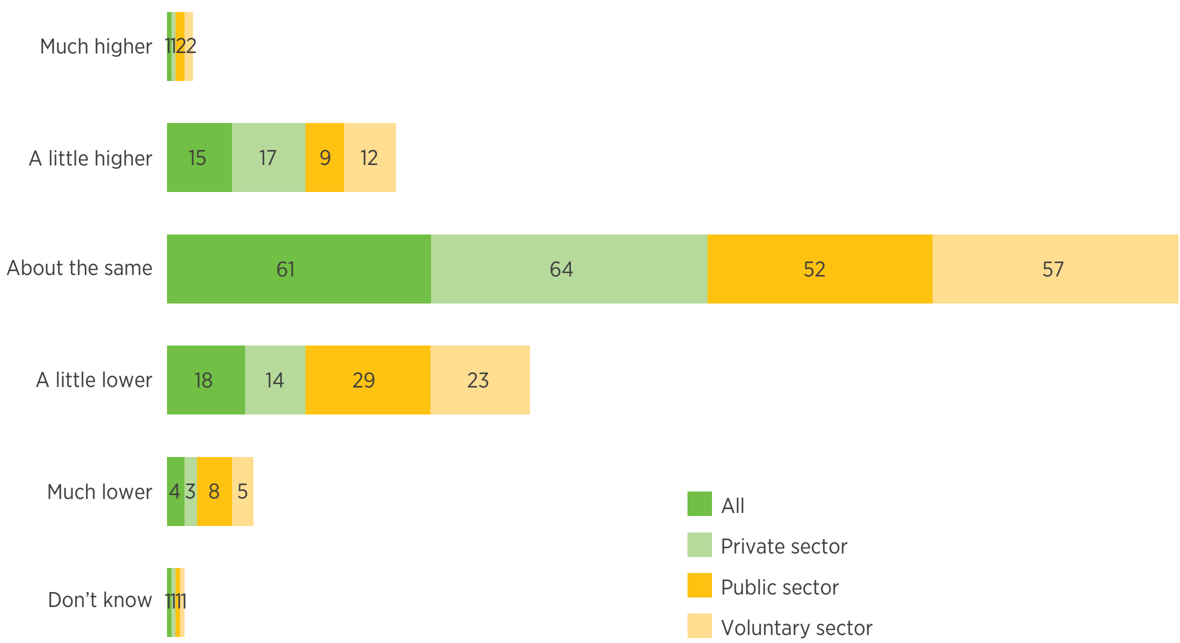
'Despite low inflation over the past 12 months, more employees (22%) report a decline in their living standards between 2014 and 2015 than say it has improved (16%).'

Despite low inflation over the past 12 months, more employees (22%) report a decline in their living standards between 2014 and 2015 than say it has improved (16%). This is broadly in line with what employees predicted would happen back in December 2014 (23% forecast a fall and 18% an improvement).

Figure 13 shows that private sector workers are more likely (18%) to report an increase in living standards, while public sector staff are more likely to report a decline (37%). Workers seeing their living standards fall are more likely to be those: aged over 45; located in the north-east of England; earning less than £10,000; and who have received a pay cut or a pay freeze.

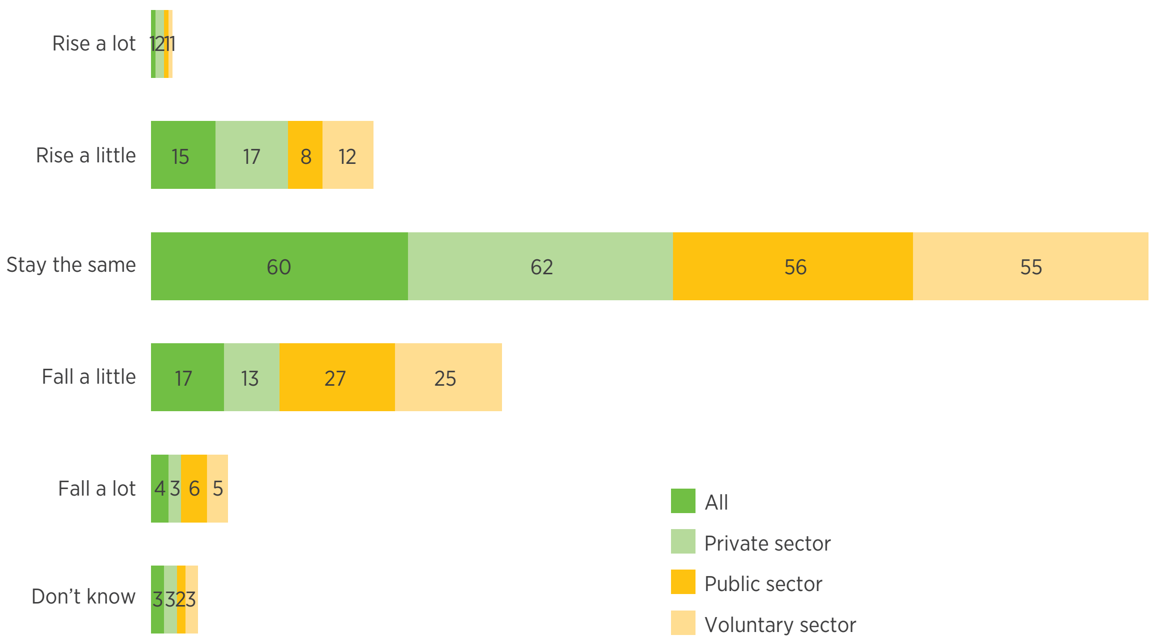
Looking towards 2016, Figure 14 shows that 16% think that their living standards will improve, while 22% think they will decline. Private sector workers are more optimistic (19%) that their living standards will rise, while public sector staff are more pessimistic (33%). The most hopeful about improving their living standards are those aged between 18 and 34, based in London, earning more than £49,000 and predicting a higher pay rise in 2016 than they got in 2015.

Figure 13: **How employee living standards have changed between 2014 and 2015 (%)**



Base: All working respondents (n=2,037)

Figure 14: **How employee living standards are predicted to change between 2015 and 2016 (%)**



Base: All working respondents (n=2,037)

Background to the survey

The aims of the CIPD's annual survey of employee attitudes to pay are to examine: employer pay decisions; the basis of these choices; employee reactions to these pay and bonus decisions; employee pay and bonus decision forecasts for 2016; and employee attitudes towards pensions and retirement.

On behalf of the CIPD, YouGov undertook this research among UK employees and builds on the data collected previously.

Method

The survey was conducted online via the YouGov panel. Fieldwork was carried out among 2,074 working adults between 10 December and 22 December 2015 and was selected and weighted to be representative of the UK workforce in relation to sector and size (private, public, voluntary) and industry type. The sample profile is normally derived from census data or, if not available from the census, from industry-accepted data.

Sample breakdown

Table 10 provides a breakdown of the key groups within the sample for the 2015 survey.

Table 10: **Sample breakdown**

Key groups	% (weighted)
All working	100
Gender	
Men	52
Women	48
Working status	
Full-time	72
Part-time	28
Sector	
Private sector	70
Public sector	22
Voluntary sector	6
Organisation size	
Micro organisation (2–9)	14
Small organisation (10–49)	15
Medium organisation (50–249)	13
Large organisation (250+)	55
Don't know	3
Management level	
Middle management and above	27
Junior manager/team leader/supervisor	20
No managerial responsibilities	53
Region	
London	11
Rest of the south of England	27
Midlands and Wales	22
North of England	20
Scotland and Northern Ireland	10
Age	
18–24	7
25–34	11
35–44	22
45–54	27
55+	34
Base pay	
Less than £10,000	14
£10,001–13,600	7
£13,601–22,500	20
£22,501–34,500	21
£34,501–49,000	14
More than £49,000	10
Prefer not say	9

CIPD

Chartered Institute of Personnel and Development
151 The Broadway London SW19 1JQ United Kingdom
T +44 (0)20 8612 6200 **F** +44 (0)20 8612 6201
E cipd@cipd.co.uk **W** cipd.co.uk

Issued: February 2016 Reference: 7235