CIPD
Championing better work and working lives

EMPLOYEE OUTLOOK

EMPLOYEE VIEWS ON WORKING LIFE

March 2015

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 more than 135,000 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

The average age at which employees expect to retire is currently 66, this research finds. However, many may be surprised to know that the age at which they will be eligible for a full state pension is increasing to 66 in 2020. From then, the state pension will rise to 67 in 2026 and to 68 sometime in the mid-2030s. In the future, the Government has announced that the state pension age will be linked with increases in life expectancy, so we could see the state pension age increasing to 69 sometime by the mid-2040s, if not before.

For many, being able to retire at 66 may be an over-optimistic expectation. While younger workers predict a later retirement date (67 for those in their twenties and thirties and 66 for those in their forties), they will probably need to work a few extra years before they are able to claim the full state pension. That some staff predict that they will be able to retire before then indicates that they either think they will be in a financial position to do so, or that they are unaware of the new state pension ages.

The Government needs to do a better job of communicating the new state pension ages so that employees are able to factor that in when making such decisions as how much to contribute to a pension scheme, when they plan to leave paid work and how they want to be employed in the lead up to their retirement.

Another factor that most employees will need to consider is how much money they will get from the state pension; the launch of a flat-rate state pension in 2016 is helpful. Not only will employees know how much they can expect to get from the state, they will also be better off saving through a company pension, because they should not lose out through means-tested benefits.

The new freedoms around how workers can access their DC pension pots will also encourage people to save more because they are no longer forced to purchase an annuity from April 2015. Not only are most workers aware of these changes, they are also supportive of them. While our research shows that only a minority plan to save more because of these changes, more have said that they would like to increase their contributions, but are unable to afford to do so at the moment.

That their current pension contributions are not enough is recognised by most workers. While the average employee DC contribution is 5%, the average contribution that workers would like to make is 9%. While this survey shows that automatic enrolment is succeeding in getting more staff into a pension plan, we also need to see more money is being contributed so that individuals will be able to retire when they want.

The challenge is that since 2009, average weekly earnings (excluding bonuses) have fallen by 7% (using the CPI measure of the cost of living) or 11% (using the RPI measure of inflation). While we have started to see pay awards begin to outpace inflation, not everyone got a salary increase in 2014 and not everyone expects to get a rise in 2015.

For more employees to contribute more to their pension pots they need to be able to earn more, but employers won't be able to afford to increase pay (or their own pension contributions) unless labour productivity increases. However, as our survey finds, this may not be happening any time soon given how poorly workers rate their employers' ability to manage, develop, reward and recognise employee performance.

The danger is if we do not look at how we can improve our productivity, the UK will get stuck in a vicious circle of poor performance, low pay and inadequate pension contributions, resulting in more workers postponing their retirement, not because they enjoy their job or feel too young to retire, but because they can't afford to stop work.

To break out of this vicious cycle, employers have to review how work is organised and managed. To a certain extent, they will have to do this anyway. Because they can no longer ask workers to retire because of their age, organisations will need to think about how they design work and jobs for their older employees. This should act as an incentive for them to act strategically and think more widely about what work will look like in the future, especially as new technology replaces many existing tasks. This then has implications for how they design work and jobs for a workforce that spans many generations as well as how they manage, develop and reward their employees.

Similarly, because employees have the right to ask to work flexibly or part-time, employers will need to look at how they can accommodate such requests from these older workers, as well as other employees. Our survey shows that many staff who are planning to work past their state pension age would like to carry on with their existing employer in a part-time role, so employers should start to think how best to accommodate this desire. Interestingly, there is little appetite among workers to go it alone and set up their own business (public sector employees are just as likely to want to do this as private sector workers). So it would make sense for the Government to review how it can encourage entrepreneurship among the over-55s.

On a more positive note, we find that many employees over the age of 45 are taking steps to prolong their working lives. However, while it is welcome that lower-paid workers are focusing on diet and exercise in an attempt to keep physically healthy and so remain in employment, it is of concern that they are less likely to be trying to acquire the skills and knowledge wanted by employers.

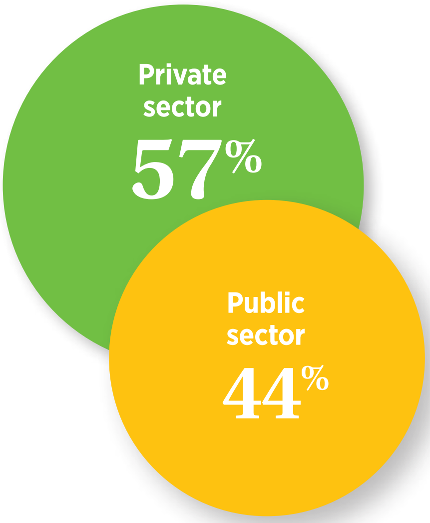
This may reflect that there are limited work opportunities for low-skilled workers to improve their job prospects, rather than a lack of desire among lower-waged individuals. Employers and policy-makers should consider how they can help those in low-skilled roles to improve their skills or work in different ways so that they are able to move into less physically demanding roles the nearer they get to retirement. A focus on skills development would also improve social mobility and employee productivity. The provision of better careers information, advice and guidance is critical to helping people make better decisions about the opportunities they have to develop new skills and reconsider their career and job options as they get older.

As well as looking at how to extend their working lives, our survey shows that employees are also engaged with their pension scheme. However, many of them would welcome information and guidance from their employer. While the new 'pension wise' service will aid those approaching retirement make informed choices, supported by appropriate laws and regulation, assisting employees make appropriate decisions early in their careers also will help improve pension outcomes.

Fortunately, 92% of those workers aged 18–24 and 82% of those aged 25–34 would welcome pension information and guidance from their employer, indicating that it is a myth that the young are not interested in pensions. Their key interests are around pension charges, fund performance and retirement options at 65. Employers are now at a crossroads. They can adopt a long-term perspective aimed at encouraging sustainable high performance by taking advantage of the people management opportunities of a multigenerational workforce and facilitate, nurture and support the work and post-work aspirations of employees. Alternatively, they can adopt a short-term perspective, regard older workers as a 'problem' and bribe them to leave.

Charles Cotton
CIPD Adviser for Performance and Reward

Summary of key findings



While 57% of private sector workers got a pay rise in 2014, just 44% of public sector employees got one.

The seventh annual survey of employee attitudes to pay is based on a survey of 2,255 working adults, across all industrial sectors.

The survey was carried out between 15 and 22 December 2014 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. Net scores are calculated by subtracting the percentage of respondents who say something positive from the percentage who say something negative. They 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.

While more workers have seen a pay rise, the typical increase is no higher...

- Just over half of employees (53%) got a salary increase between December 2013 and December 2014, up on 51% in 2013, but still down on the 67% recorded in 2008. Private sector employees have been more likely to get a pay rise (57%), followed by voluntary sector workers (53%) and public sector staff (44%). By region, those employed in the north-east of England (63%), Scotland (61%), the West Midlands (57%) and London (56%) have been more likely to have seen their pay go up than those working in Wales (39%), Northern Ireland (41%) or the East Midlands (50%).
- Among those who have got a pay rise, the typical (median) size is 2% (the same as 2013). Among our sample, 34% have seen their salary grow at the same, or at a higher, rate than the increase in the cost of living as measured by RPI. However, 41% of workers did not get a pay rise, a phenomenon that is more prevalent in the public sector (49%) than in the private sector (38%). Among those whose pay did not increase in 2014, 38% reported that it has not changed since 2012.
- Ideally, private sector employees would like to have their pay linked to own performance (48%), the cost of living (38%) and their organisation's performance (28%). Meanwhile, public sector workers would like to have their pay linked to the cost of living (60%), their individual performance (36%) and the 'going rate' for the job (26%). Regionally, West Midlands-based workers are more likely to want their pay to mirror their individual performance (58%), while those living in the East Midlands are least likely (30%).

- Of those surveyed, 28% work for employers that operate a cash bonus (34% in the private sector) and 75% of those eligible for a bonus award got one in 2014. Of those who got a bonus, 42% reported that it was higher than the one they got in 2013, while just 26% said it was lower.

...but more employees than not are satisfied with their pay rise

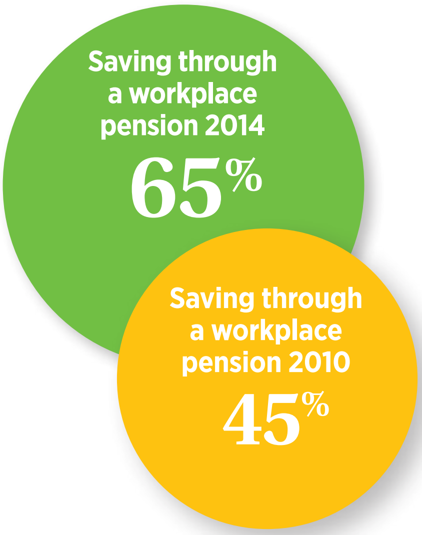
- Among those who have received a pay rise, the net satisfaction score is +37 in 2014, slightly down on +39 recorded in 2013 and down significantly on the +56 in 2011. The main explanations given by employees for satisfaction with their salary increase are: it reflects the state of the economy (20%), it is higher than last year's rise (19%) and it has kept pace with the cost of living (19%).
- Overall, the net satisfaction score with the employer's pay decision (including pay freezes and cuts) currently sits at 0. The main drivers of employee satisfaction with their employer's pay decision is whether the organisation gave an explanation to the worker for its decision and how satisfied that person was with it. This is apparent from the fact that those who received a pay rise and explanation from their employer for that increase are more satisfied (+47) than those who got a rise but received no explanation (+20).

Pay decisions could be better communicated

- Just 51% of respondents say their organisation has explained to them the rationale behind its 2014 pay decision. These explanations are more common in the voluntary (67%) and public (61%) sectors than in the private sector (47%). Only 58% of those who got a pay rise say that their employer gave an explanation. Despite the typical private sector pay increase being higher, only 54% of workers employed in this sector report receiving some employer communication about their rise. By contrast, in the public sector, where pay rises have been lower, 70% of public sector workers got an explanation.
- Employers may find that making the effort to explain the pay decision to employees is rewarded. Among those workers who have received an explanation about the pay decision, 62% are satisfied with that decision compared with 31% who are not. Among those who report no employer communication, just 43% are satisfied with the pay outcome while 51% of them are dissatisfied.
- According to employees, the most common explanations for the pay decision are: how much money the organisation has to spend (40%), the state of the economy (31%) and the performance of the individual worker (17%).
- Over three-quarters of staff (76%) have not been told what they need to achieve this year so as to get a pay rise. Of those workers who report that they were given an explanation for why they had a pay rise in 2014, only 24% said that their employer also took this opportunity to explain what employees needed to do to receive a pay rise in 2015.

47%

Just 47% of private sector employees say their organisation has explained to them the rationale behind its 2014 pay decision.



The proportion of employees saving through a workplace pension has risen from 45% in 2010 to 65% in 2014.

More employees expect a pay increase in 2015

- Over three-fifths of employees (63%) predict that they will receive a pay rise in the next 12 months; by contrast, just 54% of those questioned in 2013 thought they would get an increase in the coming year. Among employees predicting a pay rise for themselves in 2015, the median increase is 2%.
- Of those forecasting a rise this year, 36% expect the same pay increase as they received in 2014, 21% expect a higher one and 6% a lower increase. Twenty-four per cent of private sector workers are predicting a higher pay rise in 2015, as are those working in: the north-west (27%); Scotland (26%); London (25%); finance (34%); or construction (31%).
- However, 26% expect no salary increase in 2015 and this is truer of those working in the public sector (34%) than in the private sector (24%). Regionally, those working in Northern Ireland (33%), Wales and Yorkshire and Humberside (both 31%) are more likely to expect no change in pay this year.
- Of those covered by a bonus plan, 63% think they'll get one in 2015, with 18% predicting a higher bonus, 17% a lower bonus, and 28% the same-sized bonus as 2014. The remainder either do not think that they will get a bonus (24%) or do not know (12%).
- When asked how they would react if they were dissatisfied with their employer's 2015 pay and bonus decision, 45% of employees would carry out work as usual, while 15% report they would look to leave the organisation within the next 12 months. Those aged 18–24 are less likely to carry on as normal (23%), while those aged 25–34 are more likely to quit (25%).

More workers are now in a workplace pension...

- Three-fifths (65%) of our sample are now saving through a workplace pension scheme (if we exclude those earning less than £10,000 – and so will not be automatically enrolled – 74% of workers are in a pension), up on the 61% recorded in 2013 and the 45% in 2010. The biggest growth over the year has been in the private sector (from 52% to 59%) and among those covered by defined contribution (26% to 31%).
- Pension membership varies by sector (59% of private sector employees are in) and by pension plan type (67% of public sector respondents are defined benefit pension scheme members). By age, those between 18 and 24 are least likely to be in a pension (39%) and those aged between 35 and 44 are most likely to be in a scheme (78%). By region, Scottish-based workers are less likely (44%), while those in London are more likely, to be in a workplace pension plan (73%). Women (43%) are more likely not to be saving through a company plan than men (25%).
- Awareness among members of defined benefit arrangements about how much they (77% know) and their employer (55%) are contributing to the plan is lower than the level of awareness among members of defined contribution schemes (88% and 81% respectively). The average employer contribution to a defined benefit plan is 9% and 6% to a defined contribution plan, while the average employee contribution is 7% in a defined benefit scheme and 5% in a defined contribution plan. However, defined contribution members accept that they should be saving 9%.

- Among those not saving through a workplace pension, 44% report that they may not be covered by automatic enrolment because they earn less than £10,000, are over the state pension age or are aged below 22 years. Among the remaining eligible 56%, 30% plan to remain in the scheme while 26% may opt out for a variety of reasons. Of those who are not eligible to be automatically enrolled, 26% would like to be put into a workplace pension plan.

...but they would like information and guidance from their employer

- Over half (55%) of defined contribution scheme members are aware of where their money is being invested, while around two-fifths (38%) know how high their management fees are. However, there is a wide variation by employee income, age and gender, with low-earners, women and the young being far less aware of pension investments and fees.
- Most workers (85%) in a defined contribution plan have checked how much money is in it, with 40% looking at least once a year while 35% look at it more, and 10% less, often. However, when asked, 47% believe that they should check their pension pot more than once a year.
- Most employees would welcome information and guidance from their employer, with most support being sought around investment performance (32%), pension charges (31%) and what to do at the state pension age (29%). Despite the young often being characterised as being disengaged, it is they that are more likely to welcome such support than middle-aged or older workers. This suggests that future problems of pension under-saving could be avoided by providing younger employees with appropriate information and guidance.

There's support for the pension freedoms...

- Most of those in a defined contribution scheme (75%) are aware of the Government's reform of the restrictions surrounding how they can access their pension fund, especially among those aged 55 or over (91%), earning more than £34,000 and male. Most employees (52%) in a defined contribution pension are positive about these changes, while only 8% are negative (the rest being neutral or don't know). Despite this, only 27% plan to act on these changes (13% will save more, 8% will delay, while 6% will bring forward, their retirement plans), while 43% have no immediate plans to change (29% don't know if they will react or not to the freedoms). Among those who have no plans, the most common explanation (29%) is that they would like to save more into a pension but can't afford to at present, while 23% don't think they need to as they have other sources of retirement income other than through a pension.

...and acceptance that most of us will have to work for longer

- The average age at which employees expect to retire is 66, those who are younger and older expect to work for longer (aged 24 years or below expect to retire at 67, while those aged 55 and above believe they'll go at 66) as do those who earn less (those earning less than £34,000 expect to go at 66, while those earning more predict they'll be able to leave at 64).
- Given that those working for small (66 years) and micro (68) employers plan to carry on working for longer, such employers will need to think about how they design work and jobs to accommodate a more elderly workforce. In part, this desire to work for longer (67) is associated with not being in a pension scheme (which is more typical in micro and small workplaces), and it will be interesting to see if the extension of automatic enrolment to micro and small employers in the coming years has an impact on retirement expectations.
- Among workers aged 45 or over, 66% are taking steps to extend their working lives, 24% are keeping their skills and knowledge up to date, 23% are taking regular exercise and 15% have adopted a healthy diet. Those on lower salaries (and possibly more physically demanding jobs) are more likely to focus on diet and exercise, while those on higher salaries (and often in less physically demanding roles) are more likely to be focusing on their skills.
- The most popular way to retire is to gradually reduce working hours from full- to part-time (40%), followed by working full-time until leaving paid employment. Just under half of employees (47%) would like to work past the state pension age in either a full- or part-time permanent job, while just 10% would like a casual, seasonal, temporary or fixed-term role. Almost half (48%) of those planning to work past the state pension age would like to do so with their current employer (especially among those working for micro or large employers), just 18% would like a new employer (more likely among those working for small and medium organisations), while only 9% plan to become self-employed.

‘Workers are not feeling particularly motivated in their work (+13) or much pride in their employer (+25) nor do they feel especially valued as employees (–1).’

While reward, recognition, performance management is not rated highly…

- Our survey shows that workers are not feeling particularly motivated in their work (net agreement score +13) or much pride in their employer (+25) nor do they feel especially valued as employees (–1). However, it is not always the better-off workers who exhibit the highest feelings of pride, motivation and value, indicating the importance of organisational mission, vision and values in employee engagement.
- Employees also doubt whether their employer is good at assessing their performance (–14), their team’s performance (–15) or the performance of senior managers (–23), suggesting an explanation for the UK’s recent poor productivity record. Similarly, when it comes to employee communications, employees do not think their organisation is doing a particularly good job (–10).
- Not only do employees not rate their employer’s ability to assess their performance very highly, they don’t think that their organisation is particularly good at rewarding or recognising it. More employees than not do not agree that their organisation recognises (–2) or rewards (–20) employee success and achievement. As regards rewarding the efforts of leaders, more employees think senior pay is too high than think otherwise (+18). On a positive note, when it comes to performance development, more employees than not report that their organisation is giving them the training they need to do their job (+13), though this investment is focused on those at either end of the earnings spectrum rather than evenly spread. Even more concerning is that more employees than not (–25) report that their employer is failing to give them the training that will allow them to do a higher-paid job.

…employees would still prefer to stay with their organisation and recommend it as a place to work

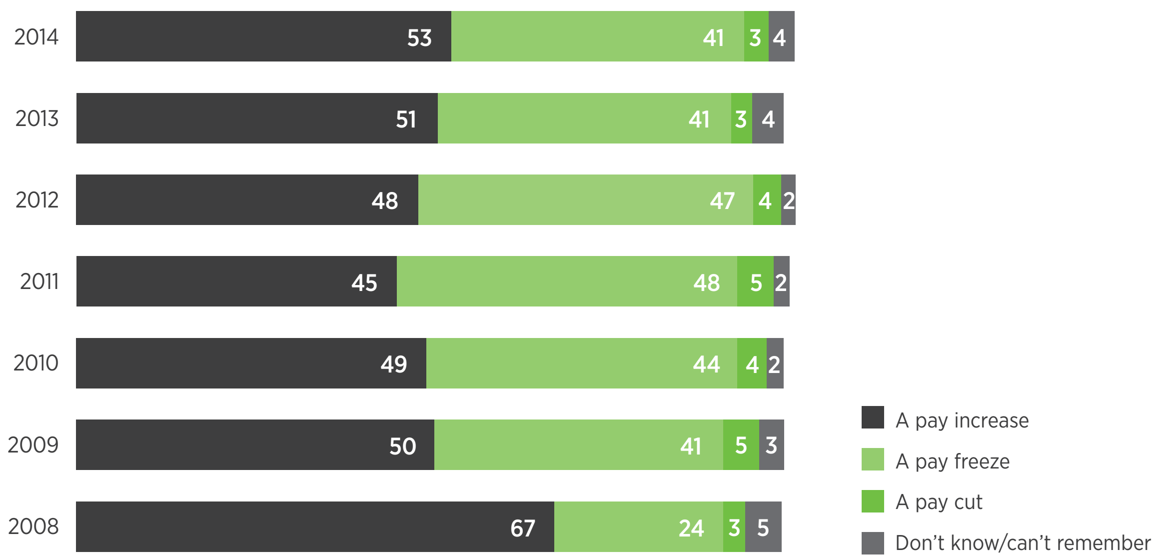
- However, despite reservations many workers feel about how their employer manages performance, reward, recognition, development and internal communication, slightly more of them than not would recommend their organisation as a place to work. Similarly, slightly more employees want to stay with their current employer than want to leave. However, despite this, there is ample opportunity for employers to drive up levels of employer advocacy and reduce employee quit intentions. As the economy continues to grow, it is likely that those employers that have problems rewarding, recognising and developing employee performance will start to lose talent to those that can.

1 Current employee pay

Over half of employees (53%) surveyed got a pay rise in 2014, up slightly on the 51% recorded in 2013 (see Figure 1).

Almost three-fifths (57%) of private sector staff enjoyed a pay rise in 2014, up on the 54% recorded in 2013. In addition, more voluntary and public sector employees also saw their pay go up. Manufacturing workers (74%), finance staff (66%), travel, tourism, recreational, cultural, sporting activities employees (65%) and transport and communications wage earners (63%) have been most likely to have seen their pay increase in 2014.

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			
	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
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
Voluntary and not-for-profit sectors	79	15	0	5	62	34	3	1	61	36	1	2	45	48	5	2	48	50	0.2	1	51	40	6	3	53	40	0	7

Base: All working respondents

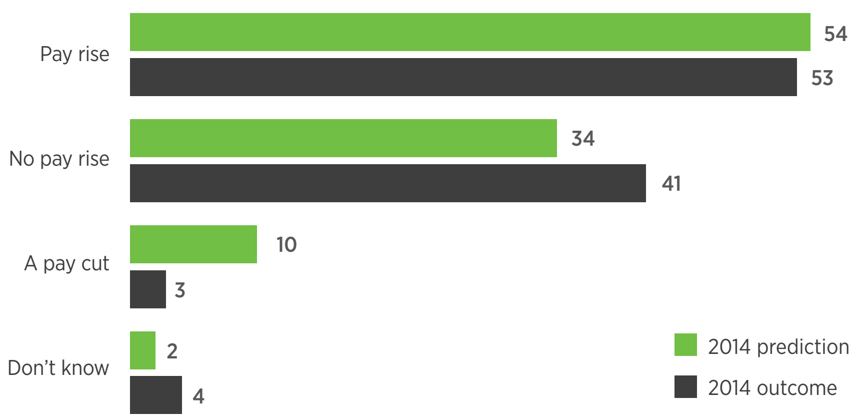
Workers aged between 25 and 34 have been more likely to have had a pay rise (59%) followed by those aged between 35 and 44 (56%), while those above the age of 55 (49%) and those aged between 18 and 24 (51%) have been slightly less likely to get a salary increase in 2014.

Those working for a larger employer (250 staff and over) are more likely to have had a pay rise in 2014 (61%) than those working for a micro employer (2–9 staff) (29%). Similarly, higher-paid staff (those earning more than £48,000 p.a.) are more likely to have had a salary rise (66%) than lower-paid staff (earning between £13,001 and £22,000) (46%).

By region, those employed in the north-east of England (63%), Scotland (61%), the West Midlands (57%) and London (56%) have been more likely to have seen their pay go up than those working in Wales (39%), Northern Ireland (41%) or the East Midlands (50%).

When comparing pay predictions for 2014 made by employees questioned in 2013 with actual pay outcomes reported in 2014 (Figure 2), there is not much difference between the proportions predicting a pay rise in 2013 and the proportions actually getting one. Where there is more of a difference is that fewer workers have got a pay cut in 2014 than was originally forecast (10%), which is reflected in more people getting a pay freeze than originally thought. However, it should be noted that the employees who were asked what has happened to their pay in 2014 are not the same individuals that were asked in 2013 to make predictions for 2014.

Figure 2 Pay decision prediction for 2013 and pay decision received in 2014 (%)



Base: All working respondents (2014: n=2,208; 2013: n=2,691)

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

Future priority	All (n=1,179)	Private sector (n=887)	Public sector (n=201)	Voluntary sector (n=68)
Mean	3.23	3.60	1.58	3.75
Upper quartile	3.00	3.00	2.00	2.50
Median	2.00	2.00	1.00	2.00
Lower quartile	1.00	1.50	1.00	1.00

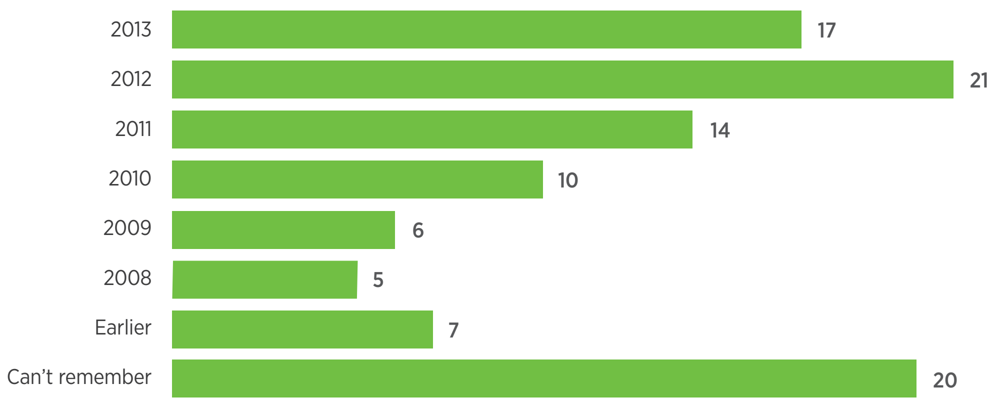
Base: All working adults

The median increase among those workers who did enjoy a pay rise is 2.0%, the same level as reported last year (see Table 2). It is higher for: workers in the private sector (2.0%); the young (2.5%); high earners (2.5%); and in micro and small employers (3.0%). Overall, 38% of those who got a pay rise saw their salary go up by less than 2%, while the rest saw it go up by more than 2%. The mean increase is higher at 3.23%, impacted by the above-average rises recorded by workers in such sectors as real estate, renting and business activities (5.28%) and construction (4.07%).

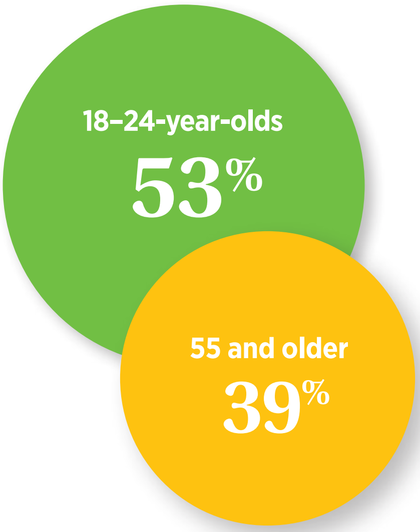
The Retail Prices Index for December 2014 stood at 1.6%; based on this threshold, 63% of all those who received a pay rise enjoyed one that matched or exceeded this level. Those more likely to have enjoyed a pay rise that equalled, or was higher than, 1.6% include those working in the private sector (72%); those employed in the East Midlands (70%); and those aged 18–34 (67%). By contrast, those working in the public sector (29%), employed in the east of England (57%) and aged over 55 (57%) have been less likely to achieve this. In total, of all employees we have questioned, just 34% have received a salary rise of more than 1.6%. Of those who got a pay rise of 1.6% or more, 78% were satisfied with the pay decision. The CIPD's *Labour Market Outlook* winter 2014–15 found that 45% of employers increased pay in 2014 (49% in the private sector). Among those who increased pay, the median rise was 2%. Overall, taking into account pay freezes, pay cuts and pay rises, salaries among our sample rose by 1% between 2013 and 2014.

When those whose pay did not go up in 2014 were asked when they last received a pay rise, Figure 3 reveals that 17% said that they had not had a pay rise since 2013, while a further 21% reported that they had not seen their pay go up since 2012.

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



Base: All working respondents whose pay is frozen (n=894)



While 53% of 18–24-year-olds believe they should be paid according to how well they have performed, just 39% of those aged 55 and older think the same.

How employees would like to be paid

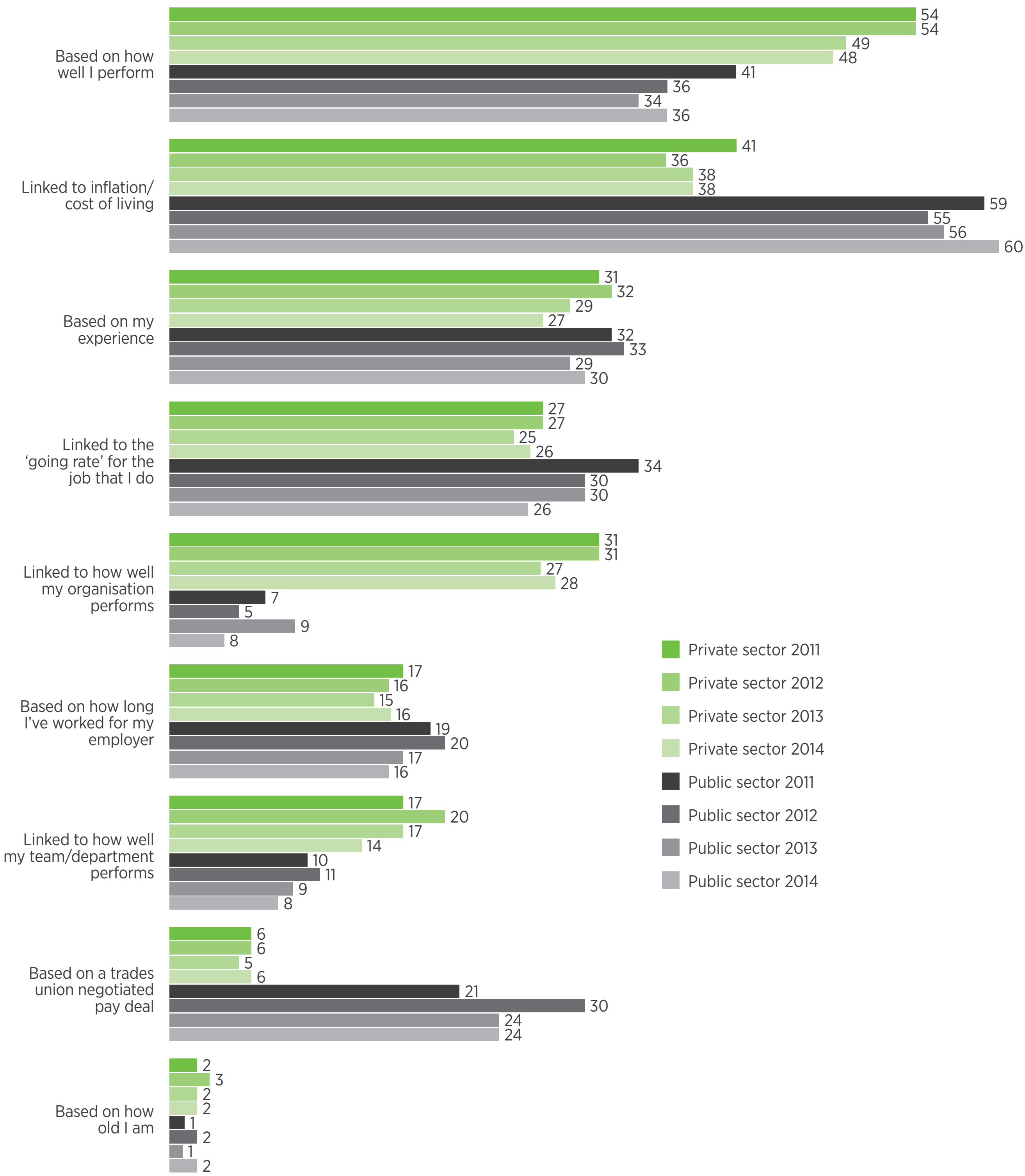
Under half (44%) of all employees believe their pay should be performance-related, while 43% state that it should reflect increases in inflation and the cost of living, something that, until relatively recently, has been somewhat difficult to achieve.

Figure 4 reveals that private sector workers are keener to see their pay reflect their own performance, their team's performance or their organisation's performance, while public sector workers are keener to see it linked to the cost of living or a trades union pay deal. While over one-third of public sector workers would like to see a connection between their pay and their performance, they are less keen to see it connected to their organisation's or their team's performance, which has implications for the reform of pay and performance in that sector.

There are also generational differences as to how employees would like to be paid. More 18–24-year-olds (53%) believe they should be paid according to how well they perform than those aged 55 and older (39%). However, the youngest workers (12%) are less likely to want their pay tied to how well the organisation does than older workers (25%). These findings pose a challenge for employers as they reward an increasingly age-diverse workforce.

Those paid between £10,000 and £13,300 are more concerned about their pay reflecting the cost of living (48%) than those on a salary of more than £48,000 (30%), while higher-paid employees are keener to see their pay linked to their individual performance (63%) than lower-paid staff (33%). Higher-paid employees are also more likely than lower-paid staff to want to see their pay associated with team (24% compared with 7%) and organisational performance (43% compared with 17%). In the UK, workers living in the West Midlands are more likely to want their pay to mirror their individual performance (58%), while those living in the East Midlands are least likely (30%).

Figure 4 Basis on which employees would like to be paid (%)



Base: All working respondents (n=2,208)

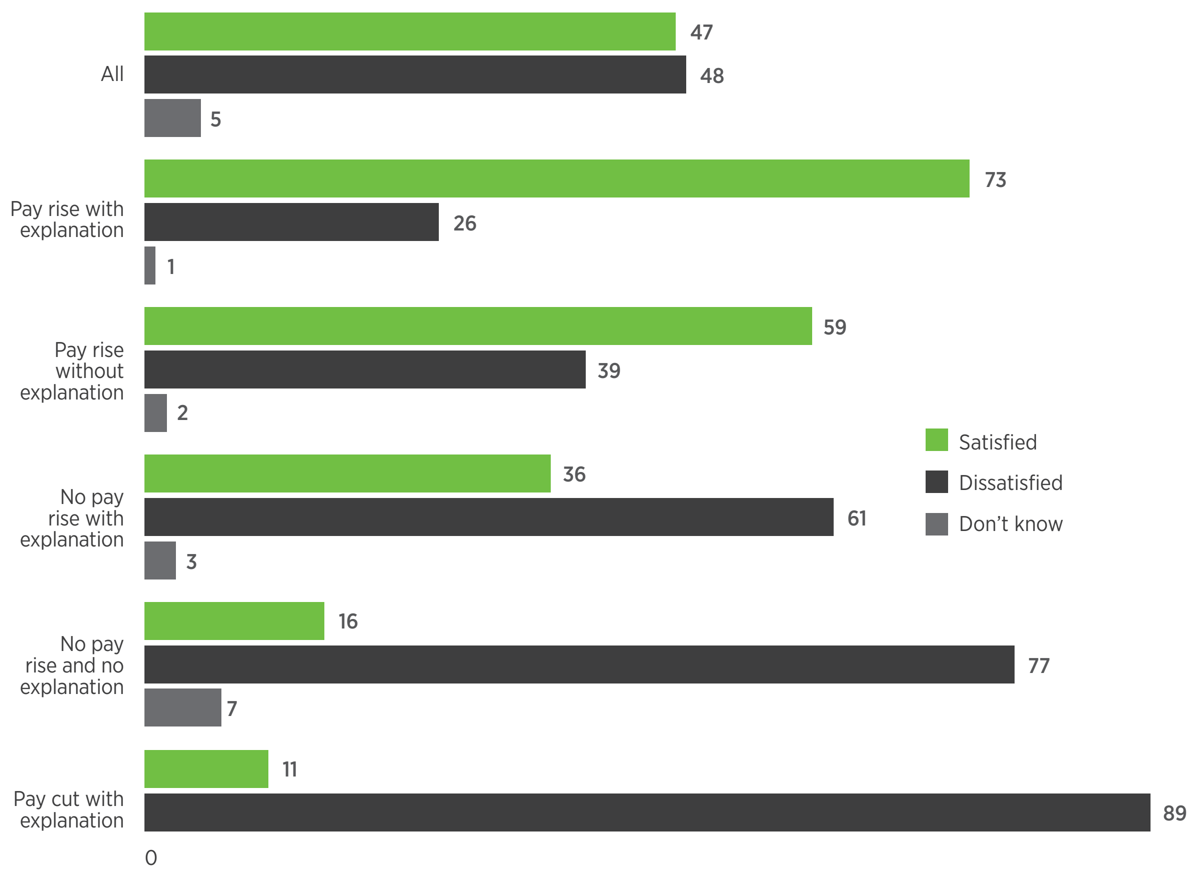
2 Satisfaction with the employer pay decision

The net satisfaction with the employer's decision to increase, freeze or cut pay among those questioned is 0. Net satisfaction with the pay decision for those who had a salary rise is +37, compared with –44 for those who had a pay freeze and –81 for those who had a pay cut.

There has not been much of a change in the net satisfaction score among private sector employees with their employer's pay decision (+13 in 2012 and +14 in 2014). The public sector net satisfaction score has fallen (from –42 in 2013 to –51 in 2014), while in the voluntary sector it has improved (from –10 to +35).

Pay decision satisfaction is driven mostly by pay rises; those people receiving a pay rise are more likely to be satisfied with this decision (68% satisfied) than those who had a pay freeze (24% satisfied) or a pay cut (7% satisfied) – although we have seen a fall in net satisfaction for those receiving a pay rise from 2011, when net satisfaction was +61, to +37 in 2014.

Figure 5 Satisfaction with pay decision (%)



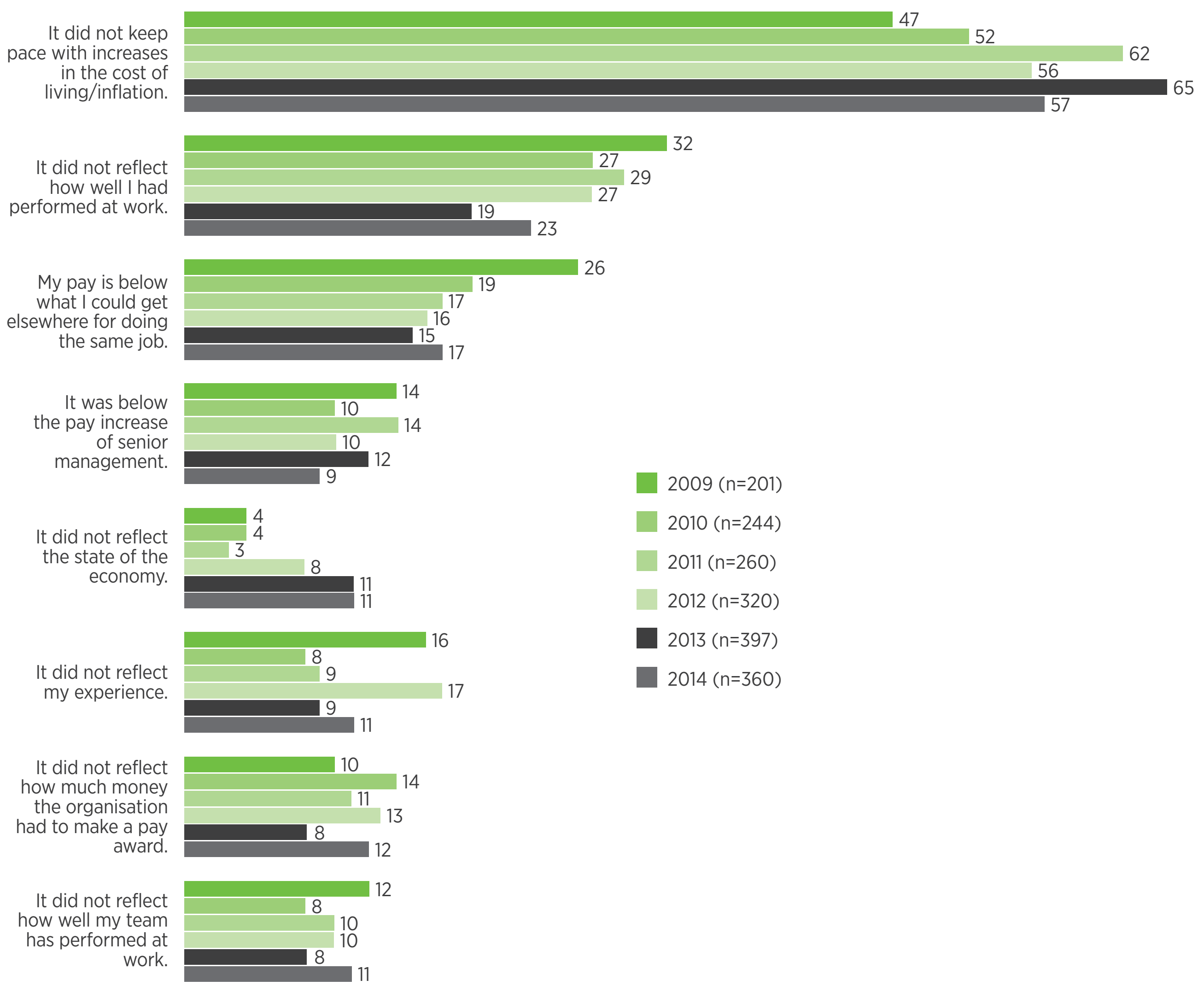
Base: All working respondents who know their pay situation (n=2,129)

If an explanation is given over the pay decision, satisfaction is higher. This is illustrated in Figure 5, where those who have had a pay rise with an explanation are more satisfied than those whose pay increased without an employer explanation. The same is also true of pay freezes.

Another influence on employee satisfaction is if they are satisfied with the explanation given to them by their employer as to why it made the decision that it did. Of those who are satisfied with their organisation's pay decision explanation, 90% are satisfied with the pay decision itself. Comparatively, of those dissatisfied with the explanation, 99% are dissatisfied with the decision. This suggests that it is worthwhile for employers to invest in pay communications, especially if they are ramping up the paybill by increasing salaries.

The most common reason for dissatisfaction with the pay increase is because it did not match rises in the cost of living or the rate of inflation, reveals Figure 6. The proportion of respondents citing this explanation has fallen between 2013 and 2014, reflecting the decrease in RPI, which has dropped from 2.8% to 1.6% over the course of 2014. While pay not reflecting increases in the cost of living is less of a source of dissatisfaction in

Figure 6 **Reasons for dissatisfaction with pay increase (%)**



Note: Only answer codes with at least 10% response in 2009 or at least 9% response in 2014 are shown.

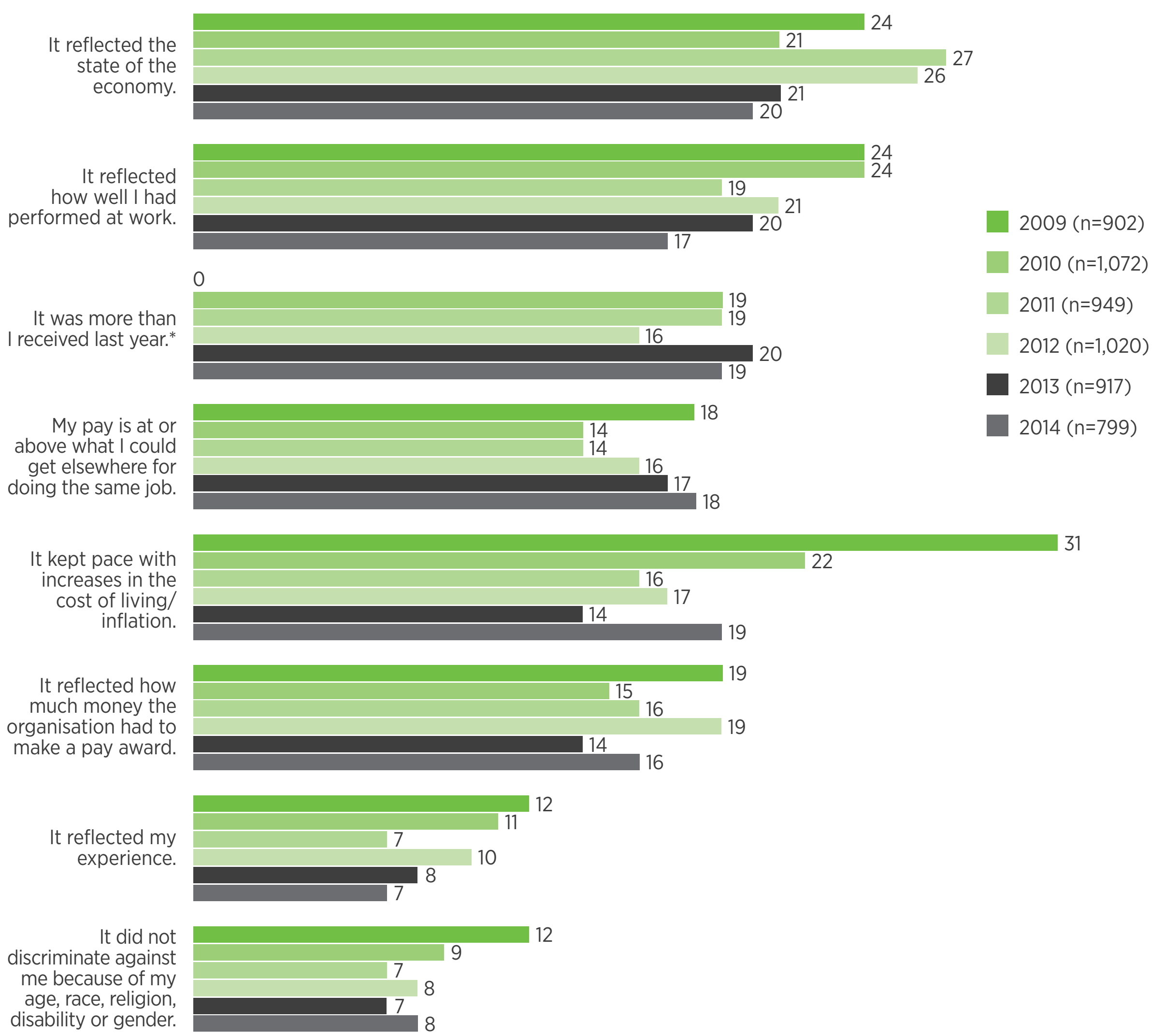
Base: All working respondents (excluding owner/proprietor) receiving a pay rise who were not satisfied with it.

2014, pay not reflecting employee performance is more of an issue, though still down on the levels recorded between 2009 and 2011.

Among those whose pay was either frozen (56%) or cut (50%), it is the increase in the cost of living that has driven their dissatisfaction. After this, 34% of those experiencing a pay cut are dissatisfied because it did not reflect their performance, while 23% experiencing a pay freeze are dissatisfied for the same reason.

One-fifth (20%) of employees (the most common answer) are satisfied with their pay increase as they feel it reflects the state of the economy. Figure 7 also reveals that more people (19%) are satisfied because their pay award kept pace with the cost of living, compared with 2013 (14%), while pay reflecting employee performance has been less of a driver of satisfaction.

Figure 7 Reasons for satisfaction with pay increase (%)



Note: Only answer codes with at least 10% response in 2009 or at least 7% response in 2014 are shown.

* Not asked in 2009

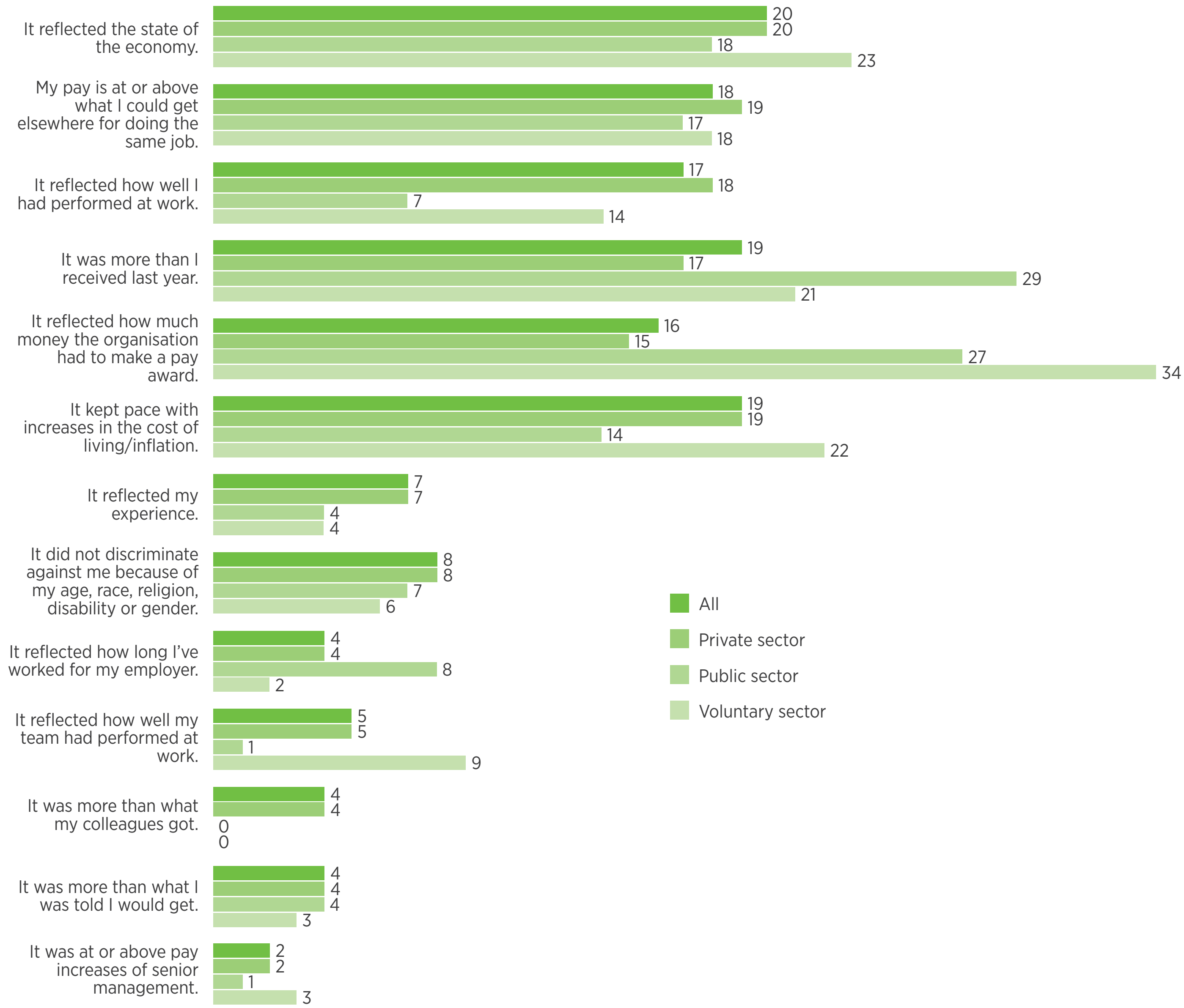
Base: All working respondents (excluding owner/proprietor) receiving a pay rise who were satisfied with it.

Thirty-five per cent of those whose pay was frozen are satisfied with this decision because it reflected the state of the economy, 29% are satisfied because it reflects how much money their organisation had available to make awards to employees, while 20% are satisfied because their pay is at or above what they could get elsewhere for doing the same job.

The most common explanations for pay increase satisfaction in the public sector are that the 2014 pay rise is worth more than the 2013 rise and it reflected how much money the organisation had for a pay increase (up from 9% in 2013 to 27% in 2014) (Figure 8). By contrast, reflecting the state of the economy has become less important (down from 34% to 18%).

Receiving more than last year's pay rise is also one of the most popular explanations in the private sector; the most common is that the pay rise reflected their individual performance. Compared with 2013, keeping pace with the cost of living has risen in importance (from 14% to 19%).

Figure 8 Satisfaction with pay increase, by sector (%)



Base: All working respondents receiving a pay rise who were satisfied with it (n=799)

3 Communicating changes in pay

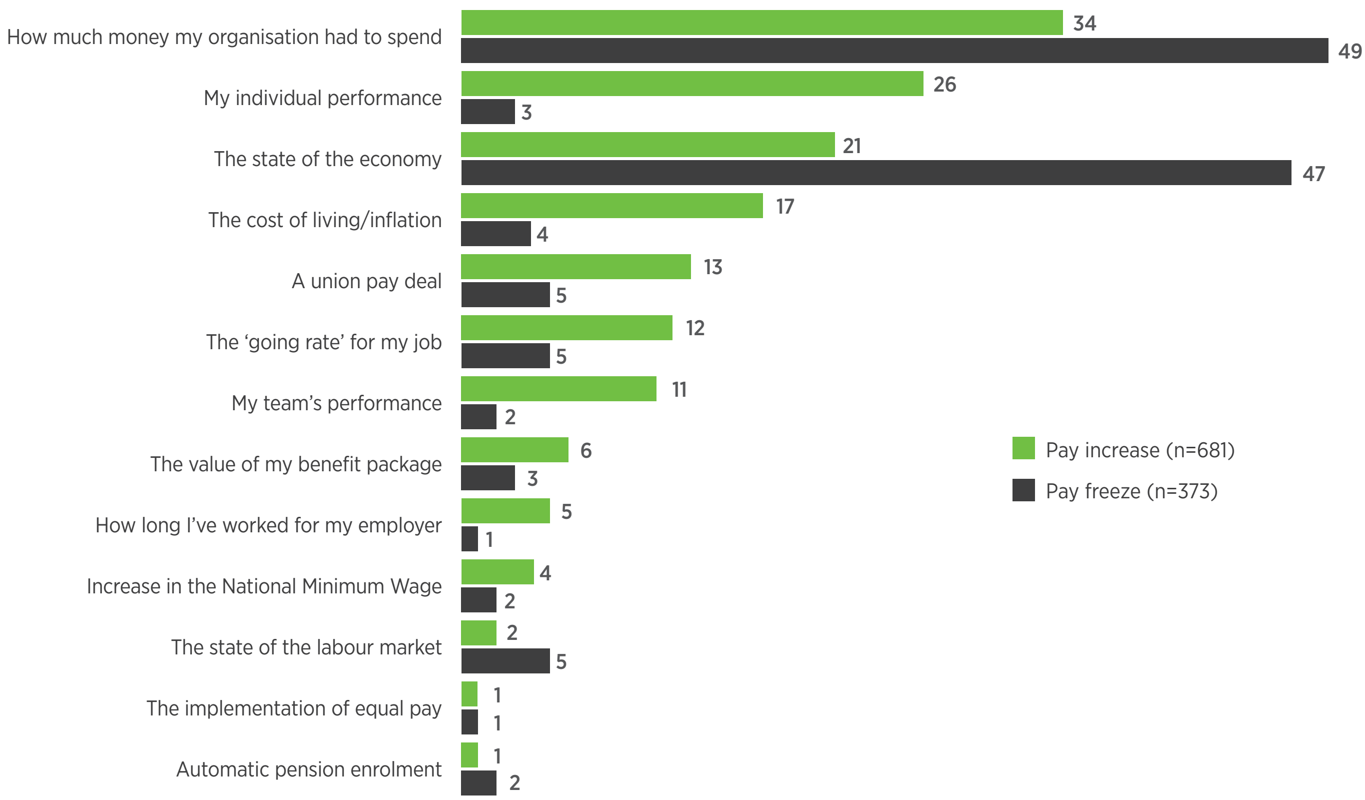
Just over half of employees (51%) have received an explanation over the pay decision made by their employer in 2014. These explanations cover both the organisation's decision to increase, cut or freeze the overall paybill and the subsequent choice to raise, reduce or freeze an individual's pay. Our survey finds that explanations are significantly more common in the public (61%) and voluntary (67%) sectors than the private sector (47%).

Staff employed by large organisations (55%) are more likely to have had their pay decision explained to them than those working for micro organisations (45%). By age, younger workers are less likely to have been given an explanation (36%) than those aged 35 to 44 (55%).

By grade, those who are in higher (70%), middle (60%) and junior (53%) management are more likely to be given an employer explanation than those with no managerial responsibility (49%).

By pay decision, those who received a pay cut were more likely to be given an explanation by their employer (59%) than those who received a pay rise (58%) or a pay freeze (42%). Interestingly, while 70% of public sector workers received some employer pay increase communication, in the

Figure 9 Explanation given to employees about the pay decision (%)



Base: All working respondents who received an explanation on their pay decision private sector only 54% report the same and this is despite the typical private sector pay rise being higher.

We are unable to explain why more employees don't receive an explanation for a pay rise. This finding is odd given that this and previous surveys have found a relationship between employee satisfaction with the decision and receiving an explanation for that decision. Among those employees who have received an explanation from their employer about the 2014 pay decision, 58% are satisfied with that decision compared with 40% who are not. Among those who report no employer communication, 59% of them are dissatisfied with the pay outcome compared with 36% who are satisfied.

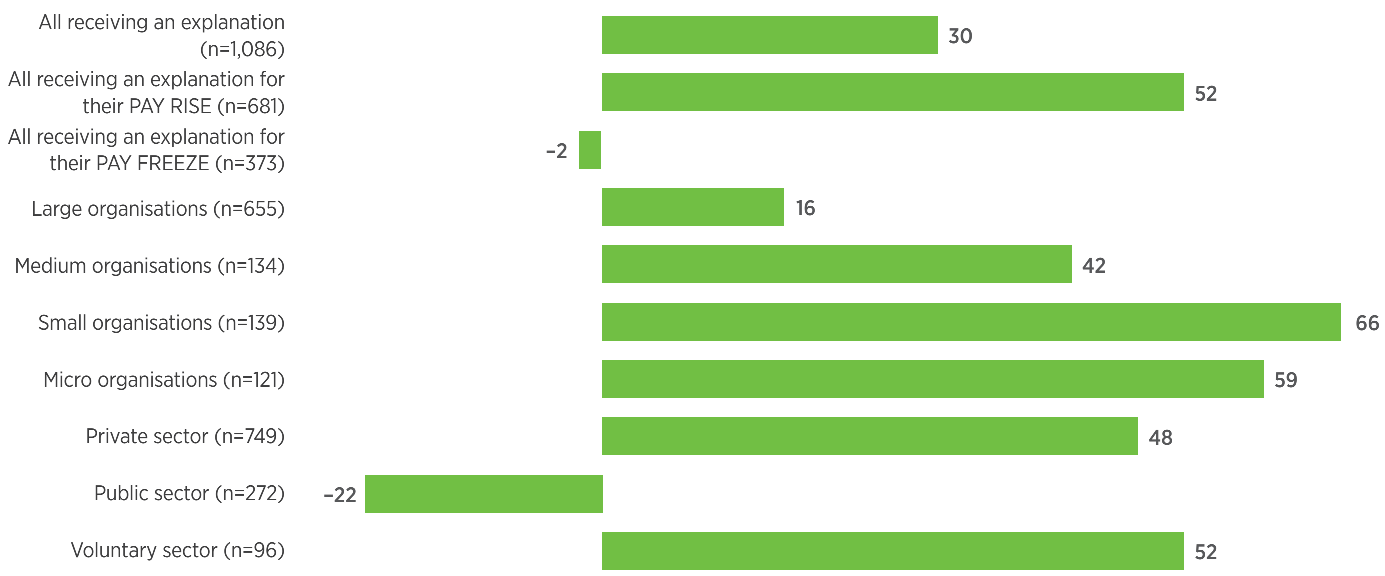
According to those workers who have enjoyed a pay rise, the most common explanation given to them is that their employer has the money to spend, followed by the individual performance of the employee.

For those whose pay is frozen, Figure 9 (where respondents could indicate more than one response) shows that the most frequent explanation alluded to the state of the economy and how much money the organisation had available.

Public sector workers are most likely to hear that their pay decision has been influenced by the state of the economy (48%). In contrast, the most common explanation (40%) given to private sector workers is how much money their organisation has to spend.

By age, younger workers (18–24) are more likely than their counterparts to have had their pay decision based on individual performance (26%), how long they have worked for their employer (24%), the 'going rate' for the job (18%), while being less likely to hear that their pay is linked to the state of the economy (11%) and how much money the organisation had to spend (18%). Unsurprisingly, younger workers were more likely to report (19%) the National Minimum Wage rise was a reason for why their pay went up in 2014. The cost impact of automatic pension enrolment has hardly been used as an explanation for a pay decision. Similarly, the state of the labour market has not been used often to explain a pay rise or pay freeze.

Figure 10 Net satisfaction with pay decision explanation (%)



Net satisfaction = satisfied minus dissatisfied.
Base: All working respondents who received an explanation on their pay decision

Employees working for small employers are more satisfied (+66) with their organisation's pay decision explanation than those employed by large organisations (+16).

Overall, more employees are satisfied with the explanation given for a pay decision than are not.

Figure 10 shows that in 2014 the net satisfaction is +30 (down on the +34 recorded in 2013 but up on the +27 in 2012). The score ranges from +52 for those who received a pay rise to –2 for those whose pay was frozen.

Those employees working for small and micro employers are more satisfied with the explanation than those employed by larger organisations. Part of this difference may be because in a smaller organisation, the relationship between employers and employees is more personal and they have a better understanding of the contexts in which pay decisions are made.

Those employees aged 18–24 (+70) and 25–34 (+39) are more likely to have a higher net satisfaction score with the pay decision explanation than those aged 35–44 (+26), 45–54 (+29), and 55 and over (+26).

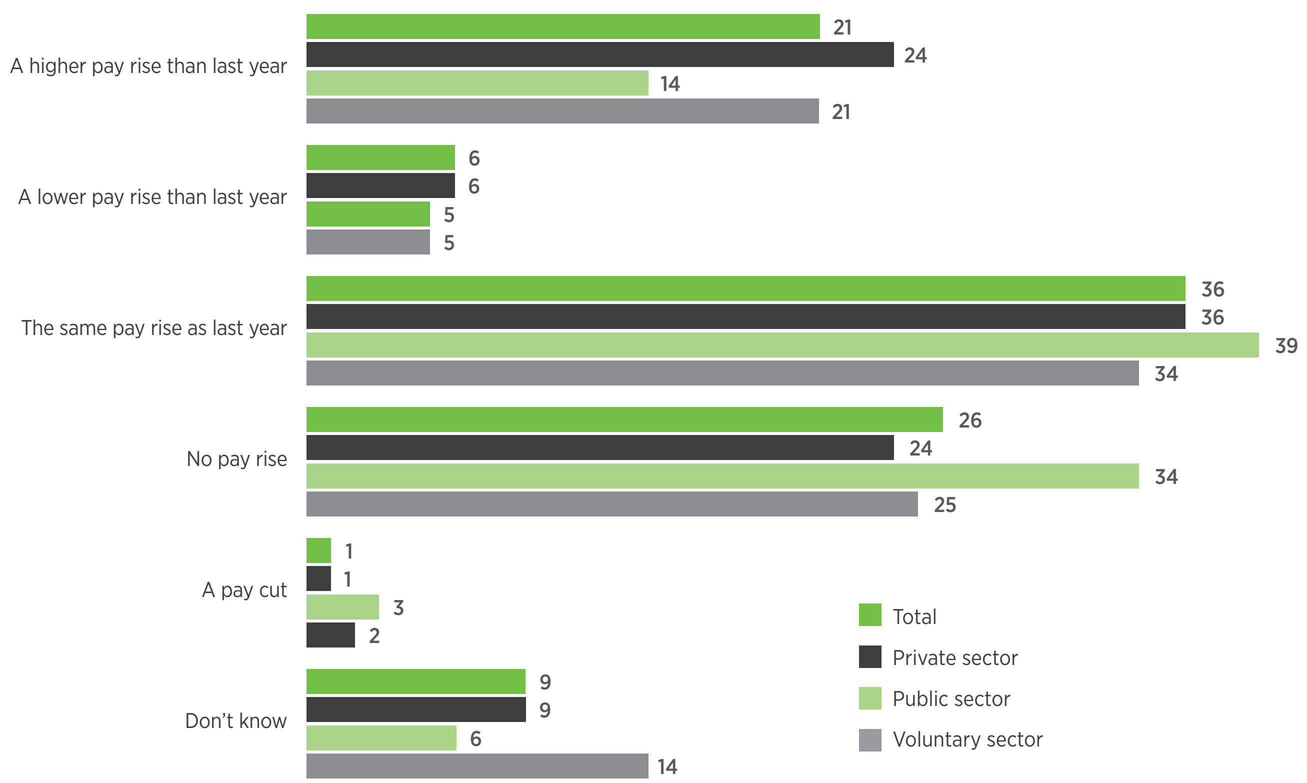
Our research indicates that there is a strong correlation between employee satisfaction with the pay decision and employee satisfaction with the employer explanation for said pay decision. The majority (85%) of those who are satisfied with the pay decision are also satisfied with the explanation. Of those who are dissatisfied with the pay decision, 61% are dissatisfied with the explanation, with 12% satisfied and 27% unsure.

4 Pay forecasts for 2015

Employers may be missing an opportunity by not explaining to their staff what values and behaviours are rewarded. Our survey finds that 76% of staff report that they've not been told what they need to do in order to receive a pay rise this year. There is little difference by sector, with just 20% of private sector workers and 17% of public sector workers receiving some advice.

Of those workers who report that they have been given an explanation of why they have had a pay rise in 2014, only 24% said that their employer had also taken the opportunity to explain what they

Figure 11 **Predicted pay decision in 2015 (%)**



Base: All working respondents (n=2,206)

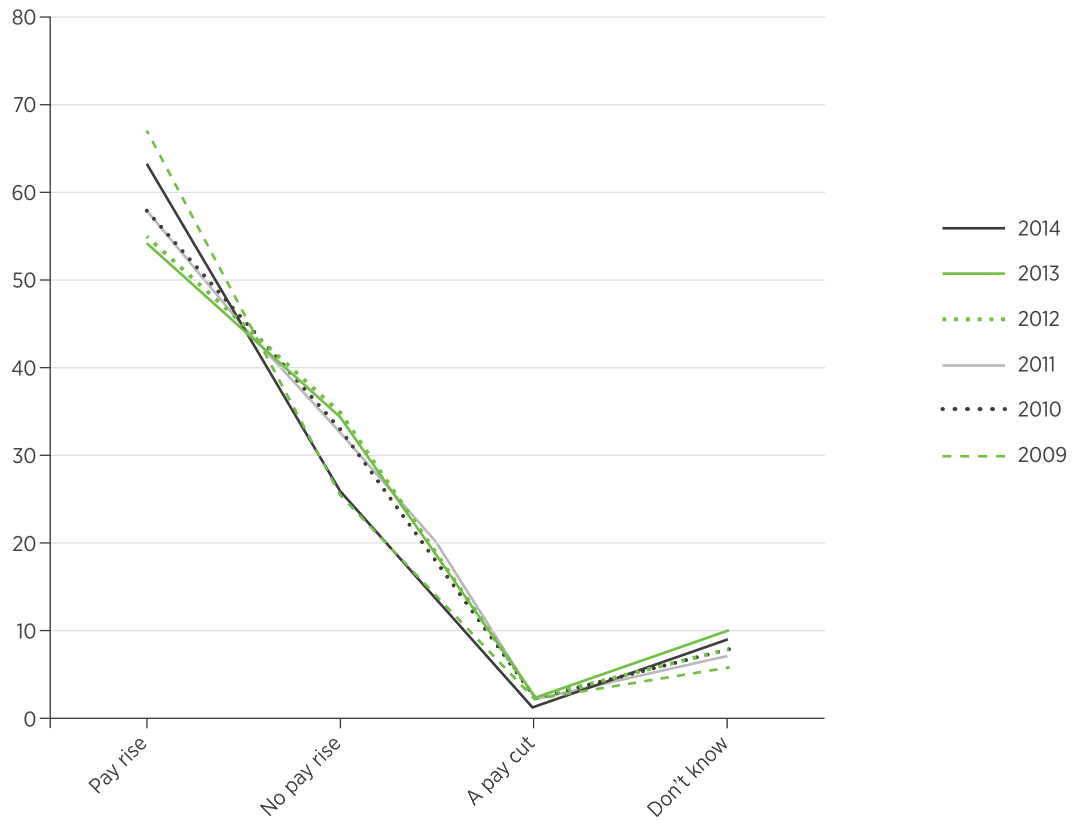
needed to do to receive another pay rise in 2015. This suggests that employers that do make the effort to explain to employees why they got the pay rise that they did may be missing a trick by failing to use this occasion to also explain what needs to happen in the next 12 months to get another increase.

Sixty-three per cent of workers expect a pay rise in the next 12 months. Figure 11 shows that 26% of employees expect no pay rise (down from 34% in 2013) while 36% predict a salary increase that matches the one received in 2014. One in five hope for a higher pay rise (19% in 2013).

Twenty-four per cent of private sector workers are predicting a higher pay rise in 2015, as are those aged between 18 and 24 (40%), those based in the north-west (27%) and those working in finance (34%) or construction (31%). By contrast, those predicting no pay rise are more likely to be: working in the public sector (34%); aged 55 or over (31%); based in Wales or Yorkshire and Humberside (both 31%); and earning less than £32,000 (31%).

Confidence in getting a pay rise in the following year has started to increase, as shown in Figure 12. In 2009, 67% of employees predicted that they would receive a salary increase in the next 12 months, but by 2013 just 54% thought they'd get a rise. However by 2014, 63% think they'll get an increase in the next 12 months.

Figure 12 Changes in expectations about next year's pay rise, 2009–14 (%)



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

Past experience can also have an impact on employee pay forecasts. Among those workers who received a pay rise in 2014, 76% expect to receive one again this year; and 43% of those whose pay was frozen last year expect the same treatment in 2015. Three-fifths (65%) of employees who claim not to have had a pay rise before 2008 report that they do not expect any salary increase in the coming 12 months.

The mean pay rise expected for 2015 is 2.59% (3.66% predicted for 2014) and the median increase will be 2.0%, the same as 2013's forecast. 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 increase, as measured by the mean, has fallen in the private (from 4.02%) and public (2.64%) sectors, indicating that there are fewer higher forecasts distorting the overall prediction and that more people are predicting a similar outcome for 2015. Overall, pay predictions for this year are similar to what employees received in 2014. So while more workers expect to get a pay rise in 2015, most think that the increase will be similar to 2014.

Table 3: **Predicted pay rise forecast for 2015 (%)**

	All (n=1,390)	Private sector (n=1,019)	Public sector (n=265)	Voluntary sector (n=77)
Mean	2.59	2.76	1.55	3.56
Upper quartile	3.00	3.00	2.00	2.50
Median	2.00	2.00	1.00	2.00
Lower quartile	1.00	2.00	1.00	1.00

Base: All working respondents who expect a pay increase in 2015

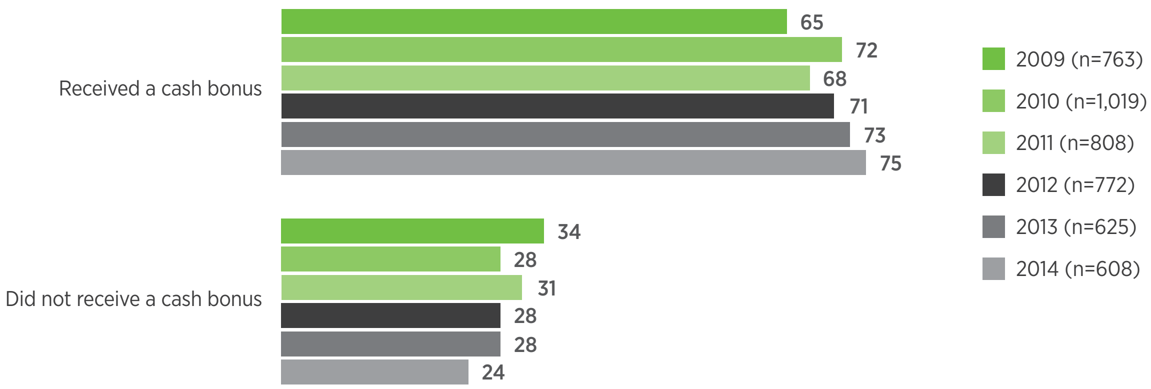
5 Cash bonuses, forecasts and employee reactions

Just under one-quarter (28%) of employees surveyed are covered by a cash bonus scheme. While 34% of private sector employees have such an arrangement, only 11% of those employed in the public sector are similarly covered. Within the private sector, it is finance (65%) and manufacturing employees (52%) who are most likely to report a cash bonus plan, while those working in hotels and restaurants the least (17%). Those most likely to be covered by a bonus scheme work: for large organisations (40%); in London (40%); and for higher pay (54% of those earning more than £48,000).

Figure 13 shows that the proportion of employees receiving a cash bonus has gradually increased since 2012. This breaks with the pattern of peaks and troughs between 2009 and 2012. Almost four-fifths (78%) of all private sector workers eligible for a cash bonus received one in 2014 (up on 74% in 2013). This compares with 52% of public sector employees (down from 58% in 2013).

Within the private sector, 79% of finance workers eligible for a bonus got one, as did 78% of travel, tourism, recreational, cultural and sporting activities staff. Workers aged 18–24 are less likely (62%) than their older co-workers to have received a bonus (over 55: 71%),

Figure 13 Percentage of employees receiving a cash bonus (%)

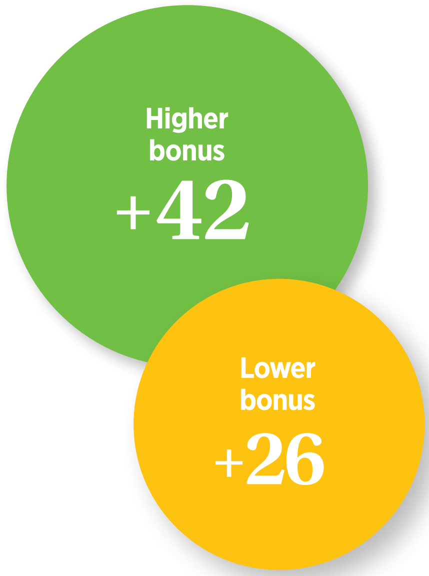


Base: All working respondents whose employers offer a cash bonus scheme possibly reflecting that they are more likely to have received a pay rise over this period.

Of those whose pay was frozen in 2014, 58% received a cash bonus, continuing a pattern of peaks and troughs since 2010. In 2013 the proportion was 59%, 63% in 2012, 59% in 2011, while in 2010 it was 66%. In 2014, a total of 4% of our sample received a bonus but no pay rise, indicating that few employers have switched reward emphasis from fixed to variable pay.

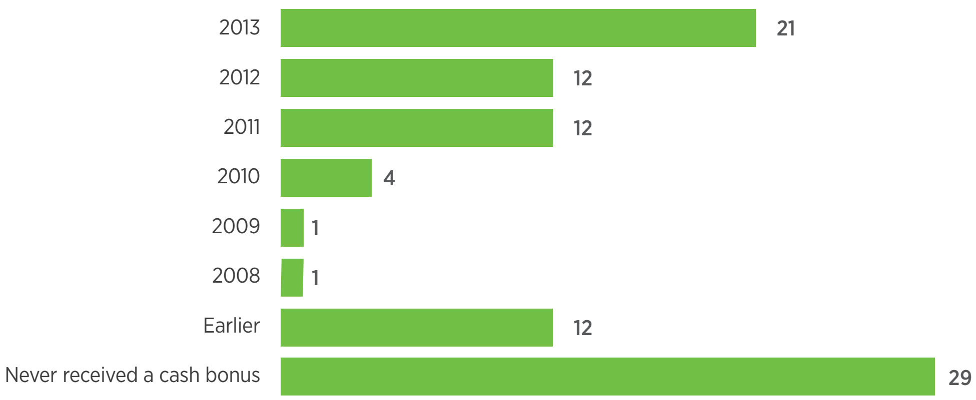
Figure 14 shows that of those employees working for an organisation with a cash bonus scheme but who have not received a bonus in 2014, 29% have never received a bonus from their employer, down on the 37% reported in 2013.

More employees reported that their 2014 bonus was higher (42%) than last year's than said it was lower (26%), suggesting that while most saw flat salary growth in 2014, some did enjoy higher bonuses.



42% of employees reported that their 2014 bonus was higher than in 2013, while 26% said it was lower.

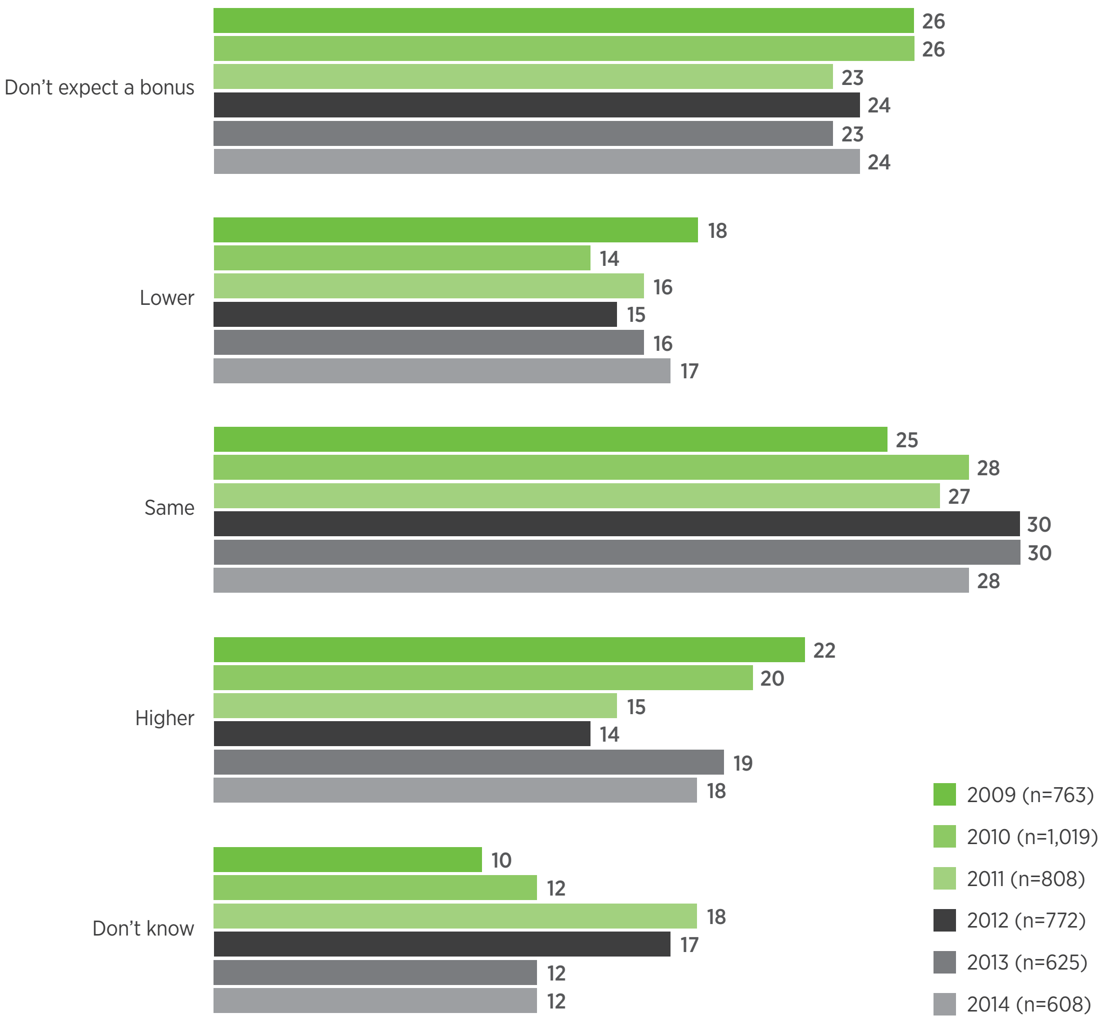
Figure 14 **Period when last cash bonus received (%)**



Base: All working respondents whose employers offer a cash bonus scheme but have not received one in 2014 (n=148)

Sixty-three per cent of those workers covered by a bonus scheme expect to get one in the next 12 months, broadly similar to the proportion of those who predicted the same in 2013 (see Figure 15). Those in the private sector are far more optimistic (19%) than those in the public sector (8%) about a higher bonus in 2015. Workers earning more than £48,000 are more hopeful that they will get a higher bonus (28%) than those earning less than £10,000 (7%).

Figure 15 Expectation of bonus size in the following year (%)



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

If workers do not receive the pay rise and bonus awards they expect that they will get in 2015, many will simply carry on as usual, though some will quit while others will work just as hard, but won't do any extra. Those aged 18–24 are less likely to carry on as normal (23%), those aged 25–34 are more likely to leave (25%), and those aged 55 and over are more likely to carry on as usual (53%). Younger workers are more likely to work harder to change the original pay decision (9%) compared with those over 55 (2%). Those in the public sector (11%) are more likely to go on strike if they do not agree with this year's pay decision, compared with just 1% of private sector workers.

Figure 16 Proposed action in response to dissatisfaction with 2015 pay and bonus decision (%)

Base: All working respondents (n=2,206)

6 Pensions and retirement

59%

59% of private sector employees are now in a company pension.

Automatic pension enrolment has been successful in getting more employees into a workplace retirement scheme, so far, shows our survey. In 2010, 45% of workers were saving through a workplace pension. This increased to 61% in 2013 and 65% in 2014, according to our *Employee Outlook* reports for these years. If we exclude from our sample all those 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%.

The biggest growth in pension saving has been in the private sector (where the proportion of pension savers has increased from 52% to 59% between 2013 and 2014) and in the voluntary sector (up from 69% to 75%). By pension plan, a higher proportion of workers are now in a defined contribution (DC) scheme (up from 26% to 31%).

Among those in a company pension scheme (65%), our research shows that this ranges by sector (59% of private sector employees are in) and by pension plan type (67% of public sector respondents are defined benefit pension scheme members). By age, those between 18 and 24 are least likely to be in a pension (39%) and those aged between 35 and 44 are most likely to be in a scheme (78%). By region, Scottish-based workers are less likely (44%), while those in London are more likely (73%), to be in a workplace pension plan. Pension membership is associated with higher base pay; while 47% of those earning between £10,001 and £13,300 a year are not in a plan, just 13% earning more than £48,000 are not saving. By employer size, 76% of employees working for a micro employer and 60% of those working for a small firm are not in a company plan. Women (43%) are more likely not to be in a company plan than men (25%), though this is more likely due to women being in part-time and in low-salaried work (38% of women in our sample get a salary lower than £13,000 a year, while just 9% of men do likewise).

Table 4: **The proportion of respondents saving through a workplace pension plan (%)**

Scheme type	All	Private sector	Public sector	Voluntary sector
Defined benefit	25	14	67	26
Defined contribution	31	36	11	41
Unsure whether defined benefit or defined contribution	9	9	10	8
No	34	41	12	25

Base: All working respondents (all: n=2,269; Private: n=1,628; Public: n=459; Voluntary: n=129)

However, just because someone is not saving through a workplace pension doesn't mean that they are not saving at all. In December 2014, we asked those employees not saving through a workplace pension (34%) whether they were saving through a private personal pension and 21% said they were. Of these, those aged 45 or more, earning more than £48,000 a year and living in the south-east of England are more likely to have a non-workplace pension. Those working for micro and small employers are more likely (26%) to be saving through a private pension.

We also asked employees how they joined their pension plan and found most (57%) had been automatically enrolled. Interestingly, we found that the majority (58%) said they had been put in the pension plan before 1 October 2012. Over one-third (34%) had to make a conscious effort to join, and while 38% of private sector pension savers had to do this, just 23% of public sector workers had to do the same.

Our research shows that pension awareness 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 DC plan. Among DB members, 77% know what they are contributing and 55% know what their employer is paying. By contrast, among DC members, 88% know what they are contributing and 81% know what their employer is contributing. Our findings suggest that those employers providing a DB scheme could do more to communicate the value of their pension contributions to their employees.

Pension contributions

Table 5 reveals, as a proportion of employee salaries, how much employers are contributing to their employee pension plans. It shows that employer pension contributions are higher in DB than DC plans. Forty-three per cent of DB members say their employer contributes more than 7%, while just 33% of DC members can claim the same. Overall, the average employer DB plan contribution is 9%, while for DC it's 6%. Within DC plans, those who have had to make a decision to join are contributing more than those who have been automatically enrolled (6% compared with 5%).

Our research shows that while some recently enrolled employees are receiving lower employer contributions than those who are already scheme members, others

Table 5: Employer pension contributions as a proportion of salary (%)

Percentage of base pay	Defined benefit	Defined contribution
0	3	2
1–1.9	6	16
2–3.9	8	15
4–6.9	25	30
7–9.9	12	16
10–12.9	10	12
13 or more	21	5
Don't know	15	3

Base: All scheme members who know how much their employer contributes (defined benefit: n=313; defined contribution: n=575) are receiving more. Compared with last year, the proportion of workers receiving contributions worth between 1% and 3.9% of salary has increased (up from 28% to 31%), while it has fallen for those getting between 4% and 9.9% (down from 58% to 46%). However, among those receiving more than 10%, the proportion has increased from 8% to 12%; in part this could be due to the impact of employers matching their employees' contributions because a higher proportion of these individuals earn more than £48,000 and are able to afford to save more for their retirement.

As a proportion of their salary, average employee contributions are higher in DB (7%) than DC (5%) schemes. Table 6 shows that while 36% of DB members are contributing more than 7%, the same proportion for those in a DC plan is 19%. 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 8%, while it is 14% for those aged 55 and over), by sector (13% private and 14% public), and by salary (9% for £10,001–13,300 and 15% for £48,000 and above).

Table 6 also shows what DC members think they should ideally be saving so that they can enjoy a reasonable retirement. Over one-fifth (22%) do not know. Ignorance is highest among the youngest (40%) and oldest (30%) workers. Similarly, the higher the salary the less likely staff are to admit that they don't know how much they should save.

Of those that have been able to give a figure, the most common response was between 10% and 12.9% (22%). As workers get older (and earn more), they think that they should contribute more. A contribution level of between 4% and 6.9% is the most popular answer among those aged between 18 and 24 (21%) and 25 and 34 (23%), while 10% to 12.9% is the most common answer among those aged from 35 to 44 (27%) and from 45 to 54 (31%). Around a fifth of those earning between £10,001 and £34,000 think they should save between 10% and 12.9%, while a third of those earning more than £34,000 think they should save the same amount of salary.

Overall, 9% is the size of the average pension contribution that employees in DC schemes think they should be paying into their scheme (compared

***Table 6:* Employee pension contributions as a proportion of salary, actual and ideal (%)**

Percentage of base pay	Defined benefit	Defined contribution (actual)	Defined contribution (ideal)
It is non-contributory	5	7	0
1–1.9	6	14	2
2–3.9	8	17	5
4–6.9	32	37	16
7–9.9	23	9	11
10–12.9	8	6	22
13 or more	5	4	21
Don't know	13	6	22

Base: All scheme members who know how much they contribute (defined benefit: n=481; defined contribution actual: n=620; defined contribution ideal: n=707) with the 5% average that is currently being paid). Those who believe that they should be saving more include: men (10% pension contribution); 45–54-year-olds (11%); earning a salary over £34,000 (11%); and those based in the West Midlands (12%). These figures suggest that while many employees recognise they need to save more, there are a number of factors stopping them from doing this, such as affordability or pension saving restrictions.

Pension awareness

Good pension outcomes for DC members not only depend on how much is being contributed (among our sample, the average total pension contribution is 11%) but also on how the investments grow and how much that growth is reduced by pension charges. Over half (55%) of DC scheme members are aware where their money is being invested, while two-fifths (38%) know how high their management fees are.

Organisations that employ many lower-paid staff should consider appropriate scheme governance for their DC plans so that fees and investment outcomes can be monitored and appropriate action taken when required to encourage good pension outcomes, because Table 7 shows low-earners are less knowledgeable about pension investments and fees. Alternatively, the Government may seek to intervene in this area. Similarly, just 41% of women know where their money is being invested and 28% know what they are paying in management charges.

Just 15% of employees in a DC scheme said that they had never

9%

9% is the size of the average pension contribution that employees in DC pensions think they should be paying.

Table 7: **Investment and charge awareness among defined contribution plan members (%)**

	All	Employee income				
		£10,001 to £13,300	£13,301 to £22,000	£22,001 to £34,000	£34,001 to £48,000	£48,000 and above
Proportion of members who know where their money is being invested	55	37	44	49	59	79
Proportion of members who know how much their management fees are	38	28	25	38	42	55

Base: All defined contribution scheme (n=707) checked how much money they had in their pension scheme. By contrast, 40% of them look at it annually, 35% look at it more often (such as half yearly or quarterly) and 10% less frequently. Those earning more than £48,000 are more likely (48%) to check their fund more often than once a year than lower-paid employees. However, when asked, 47% of those questioned thought that they should be checking their pension fund more than once every 12 months.

Table 8 shows that, when asked, many employees in a pension scheme would like employer information and guidance concerning investment performance and scheme charges. By age, younger employees are currently more likely to want information and guidance while older employees are less likely to want it; this may reflect the fact that older workers are more likely to be covered by DB schemes and see less need for help or may prefer information and guidance from other parties (such as pension providers). These findings suggest that despite their many years from retirement, younger employees could be more receptive to support from their organisation than older workers. This has implications for how information and guidance is provided by employers, especially to a young audience.

When those not already saving through a workplace pension were asked how they would respond to being automatically enrolled into one (into which both they and the employer would contribute), 30% said they would stay in the scheme while 26% would opt out for a variety of reasons. Table 9 shows that 44% believe that they would not be covered by automatic enrolment because they earn less than £10,000 a year, are over the state pension age or are aged below 22.

Among those who are not eligible to be automatically enrolled, 26% would like the opportunity to opt into a workplace pension plan. According to our research, 78% of those who do not earn enough to become an eligible worker would still like to be enrolled, while 14% of ineligible workers aged above the state pension age would like to join as well. This suggests that employers and pension providers should highlight to non-eligible jobholders that they can join the scheme and make it easy for them to do so.

Table 8: **The employer information and guidance employees would like, by employee age (%)**

		Employee age				
	All	**18–24**	**25–34**	**35–44**	**45–54**	**55+**
How my investments are performing	32	43	32	33	33	30
The charges that I am paying on my pension	31	65	35	27	28	32
What I could do with my pension when I reach the state pension age	29	39	22	25	33	31
What I could do with my pension when I reach 55	26	29	22	29	31	18
How much I should be saving into a pension scheme	25	31	30	31	25	18
What to do if I have more than one company pension and I want to bring them together into one pension	22	27	19	25	23	18
What types of pension funds I could be investing in	19	24	19	19	21	15
Don't know	10	9	13	11	11	6
None of the above	25	8	18	23	24	33

Base: All (n=1,065)

Pension changes

In 2014, the Government announced that from April 2015, the restrictions on how DC pension members could use their pension fund would be lifted and they would no longer have to buy an annuity. Regardless of the size of an individual's pension pot, as long as they are over the age of 55 they could take up to 25% of their pension pot as tax-free cash.

According to our survey, 75% of employees who are in a DC plan are aware of these forthcoming changes. There is more awareness among those nearer to retirement (91% of workers aged 55 and over knew about the changes while 49% of those aged between 18 and 24 are aware) and salary (six in ten earning less than £13,000 know about the changes compared with nine in ten of those paid more than £34,000). There is also a high level of awareness among those working in travel, tourism, recreational, cultural and sporting activities (84%), followed by financial services and real estate, renting and business activities (both 81%). Women are less aware of the changes (65%) than men (82%).

In addition to high levels of awareness, our survey finds a high level of approval for the reforms among workers. While 52% of DC members are positive about the changes, only 8% are negative. The rest are either neutral (15%) or don't know (25%). Support for the reforms increases with age and annual salary.

However, at present, only a minority of employees plan to respond to the freedoms, with 13% of employees planning to increase their pension savings, 6% bringing forward their plans to retire from work, while 8% are now delaying their retirement plans. Those aged between 45 and 54 are now more likely to save more (16%), while those aged 55 and over are more likely to both retire earlier (11%) or later (14%) than originally planned. Forty-three per cent of DC employees say they will not react to the pension changes, while 29% don't know how they will respond at present. Among the 43% who don't intend to react, the most common explanation (29%) is that they would like to save more but can't afford to at present. Other non-response explanations include: *'I have/will have other sources of income on which I can rely when I retire'* (12%) and *'I prefer to save for my retirement in other ways'* (11%).

Changing work and retirement patterns

Looking to the future, respondents expect that they will retire from paid employment when they are 66 years old. Those aged between 18 and 34 think they'll carry on until age 67, while those aged between 45 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 64, private sector staff believe they'll carry on until they're 66. However, 25% of respondents are unable to

Table 9: **How those not in a pension plan may react to being automatically enrolled (%)**

Not applicable, I earn less than £10,000 a year	29
Think it's a good idea to save for my retirement and will stay in the pension plan	15
Not sure how I will feel, but I will probably stay in the pension plan	15
Not applicable, I am over the state pension age	13
Think it's a good idea to save for retirement through a pension but will opt out because I can't afford to contribute	6
Think it's a good idea to save for retirement through a pension but will opt out because I am already saving for my retirement in other ways, such as through ISAs or buy-to-let housing	5
I have already been automatically enrolled into a pension and already opted out as I thought it was a bad idea/could not afford to contribute	6
Think it's a bad idea to save for retirement through a pension and will definitely opt out	4
Think it's a good idea to save for retirement through a pension but will opt out because I have/will have other sources of wealth on which I can rely when I leave work, such as spouse's pension or an inheritance	4
Not applicable, I am under 22 years	2

predict when they'll leave paid employment, more typically women (30%), young workers (32%) and those employed in lower-waged jobs (32%).

Salary levels influence retirement expectations, with those earning more than £34,000 expecting to retire at 64, while those getting less predicting they will go at 66. Pension scheme type also influences expectations, with those in a DB scheme expecting to go at 64 and those in a DC scheme at 65. The age at which people expect to retire is also linked to employer size. The expected age at which they will stop work from micro firms is 68, 66 in small employers and 65 in medium and large-sized organisations. Those not saving through a pension scheme (typically those working for micro and small employers) expect to stop work at 67, with 7% anticipating that they will have to work past the age of 70 (typically employed in micro and small employers). This suggests that many micro and small employers will need to review such people management practices as work and job design to help their older workers stay on past the state pension age and may look for government assistance to do this, or the introduction of automatic enrolment in micro and small firms will mean that employees think they'll be able to retire earlier than originally expected.

In response to the need to extend their working lives, 24% of employees aged 45 or over report that they are keeping their skills and knowledge up to date (for example courses, training, and so on), while 23% are taking regular exercise and 15% have a healthy diet. Interestingly, as salaries increase, workers are more likely to focus on keeping their skills and knowledge up to date and less likely to focus on their exercise and diet. This may indicate lower-paid employees are more likely to be in jobs that require a reasonable level of health and fitness while higher-paid employees are in occupations that require levels of skills and knowledge. It may also reflect the limited opportunities that lower-salaried workers have to refresh or learn new skills and knowledge not associated with their current job. The survey also finds 31% of those aged 45 and over admit that they are not taking any steps to extend their working lives. Looking forward, if we want to improve UK productivity, workers need to be encouraged to stay in the labour market for longer and to look after their bodies and their minds, which will require a collaborative approach between employers, employees and government.

When asked, 40% of employees plan to retire from paid employment by gradually reducing their hours from full-time to part-time, while 32% said that they would work full-time until they retired fully from all paid work. Of the rest, 15% said they hadn't thought about how they planned to retire, while 13% thought they would never be able to afford to leave paid employment. Private sector workers are more pessimistic (14%) about their chances of ever being able to afford to retire than public sector workers (7%); this is especially true of those working in hotels and restaurants (22%) and those earning less than £10,000 a year (28%). Again, employers in these sectors will need to review how they design work and jobs as more and more workers carry on past the state pension age.

Looking forward, how would workers like to be employed past the state pension age and with whom? Of those who do plan carrying on past the state pension age, 47% would like to do so in a permanent job, either part- (31%) or full-time (16%), while 10% would like a casual, seasonal, temporary or fixed-term role. A further 11% do not know how they would like to carry on, while 28% do not wish to work past the state pension age; this is especially true of public sector workers and those earning more than £34,000 a year.

Just under half (48%) of those wishing to work past the state pension age would like to do so with their current employer, 18% would like to carry on working with a new employer and 9% would like to become self-employed (25% do not know). Those working for either micro or large employers are more likely to want to remain there, while those employed by small and medium-sized organisations are more likely to want to seek a new employer. Again, these findings have implications for how organisations manage those individuals who work past the state pension age, such as training and development and reward and recognition.

7 Employee work attitudes

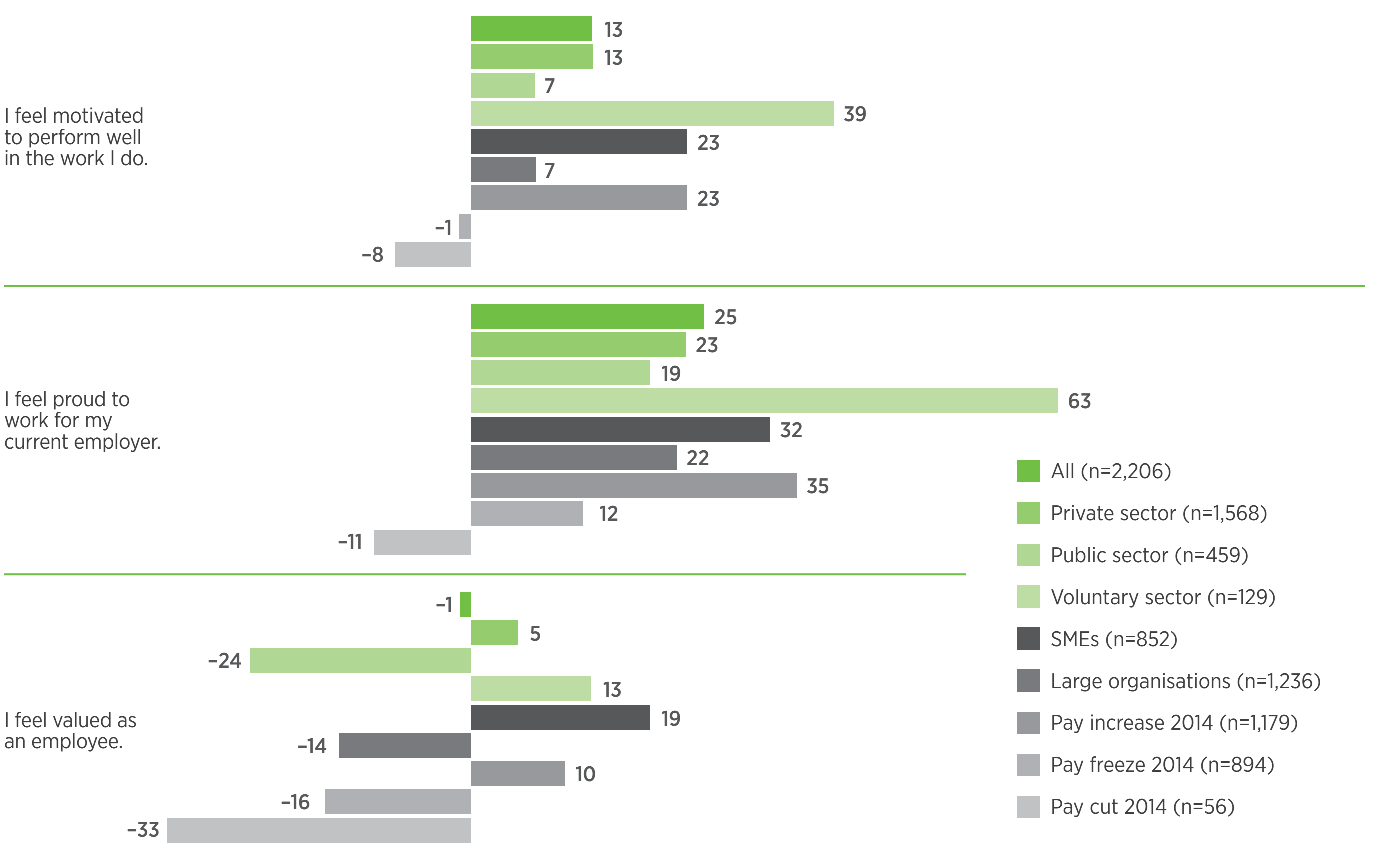
Workers are not feeling particularly motivated in their work, do not have much pride in their employer nor do they feel especially valued as employees, our survey shows. However, it is not always the better-off workers that exhibit the highest feelings of pride, motivation and value, indicating the importance of organisational mission, vision and values in employee engagement.

Using net agreement scores, which are calculated by subtracting the percentage of respondents who say something positive from the percentage who say something negative, Figure 17 reveals that by employer size, individuals working for small and medium-sized employers feel higher levels of pride, value and motivation than those employed by larger employers. This may suggest that larger employers find it harder to communicate with employees about their purpose, mission and culture than smaller employers.

Those employed in London have the highest net agreement scores for motivation (28), pride (33) and feeling valued (15), while those working in Yorkshire and Humberside have the lowest (–2, 9 and –17 respectively).

Figure 17 also shows that pay can have an influence on employee feelings of pride, value and

Figure 17 Net agreement with employment affinity statements: employee feelings



Net satisfaction = agreement minus disagreement

Base: All working respondents (n=2,206)

‘Workers doubt whether their employer is good at assessing their performance (–14), their team’s performance (–15) or the performance of senior managers (–23).’

motivation. Those individuals who have enjoyed a pay rise in 2014 are more positive than those whose pay has been frozen or cut, though how the pay decision is communicated can also influence responses. Those towards the top of the earnings pile have greater feelings of pride, value and motivation than those towards the lower end. Compared with 2013, the overall levels feeling pride, motivated and valued are broadly similar in 2014 – indicating that while things have not got worse, they have not got much better in the past 12 months.

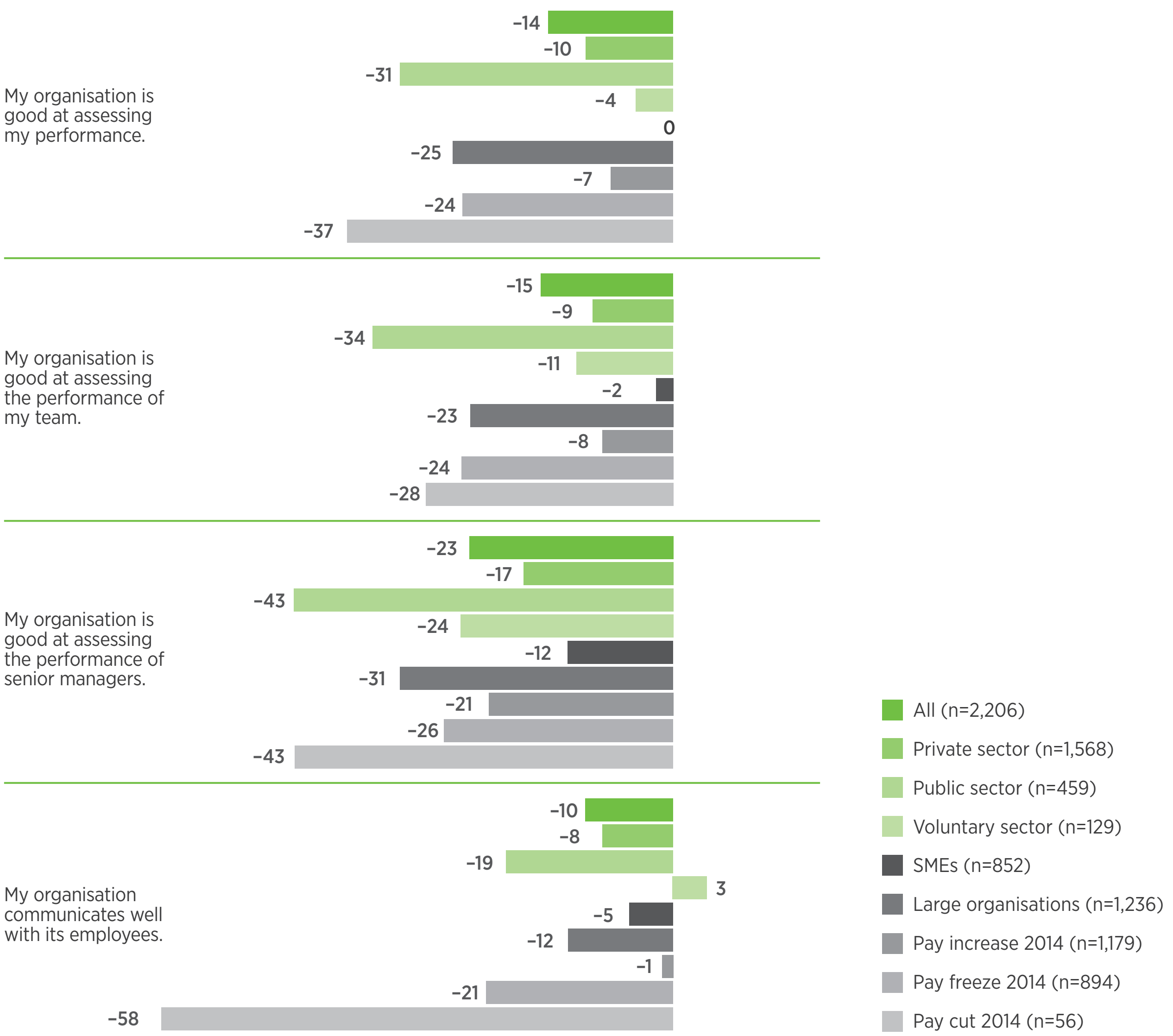
One explanation for the UK’s poor productivity could be how employers assess the performance of their employees, either individually or collectively. Our survey shows that employees doubt whether their employer is good at assessing their performance, their team’s performance or the performance of senior managers. This perceived failure to effectively manage performance is most stark in the public sector, though both employees in the private and voluntary sectors also exhibit some scepticism that their employer can effectively manage performance. By age, it is only those aged 18–24 who are less sceptical about their employer’s ability to manage individual (–1) and collective (1) performance.

Figure 18 shows that while pay decisions influence employee disappointment in their employer’s ability to manage individual or collective performance, even those who received a pay rise in 2014 are at best neutral about how good their organisation is at performance management. By base pay, it is only those who earn £48,000 or more who report positive net satisfaction scores regarding performance management, though even they don’t think their organisation does a particularly good job of managing the performance of senior managers.

Overall, the data also shows employees doubting whether their organisation is good at managing the performance of senior managers, irrespective of sector or pay decision. This is a concern if the led are questioning how their leaders are managed. While employees’ opinions regarding how their, or their managers’, contribution is assessed have not deteriorated significantly over the past 12 months, they have not improved either. If employers want to boost productivity, they need to look at how effective they are at managing employee performance.

When it comes to how well their employers communicate with them, most employees do not think their organisation is doing a good job, with only the voluntary sector reporting a positive net satisfaction score. This may be linked to an employee perception that they do not have any voice, and all communication is seen as top–down. If employers are going to be able to benefit from economic growth, they will need to review why they are so poor at communicating about work matters with their employees.

Figure 18 Net agreement with employment affinity statements: performance and communications



Net satisfaction = agreement minus disagreement

Base: All working respondents (n=2,206)

‘Employees do not think that their organisation recognises (–2) and rewards (–20) employee success and achievement.’

Not only do employees not rate their employer’s ability to assess their performance very highly, they don’t think that their organisation is particularly good at rewarding or recognising success. Figure 19 identifies the areas where there is room for improvement. Perhaps the greatest prospect for progress is around praising employees for their achievements and successes as saying thank you has very few cost implications. Those in the public sector are less likely to say that their employer is good at saying thank you. However, those in the private sector are not particularly positive about their own organisation’s ability to praise them for their achievements. Whether an individual saw their pay rise, stay the same or fall has an impact on attitudes to praise. Again, it is workers aged 18–24 who have the most positive impression of their employer’s ability to praise good performance (+13).

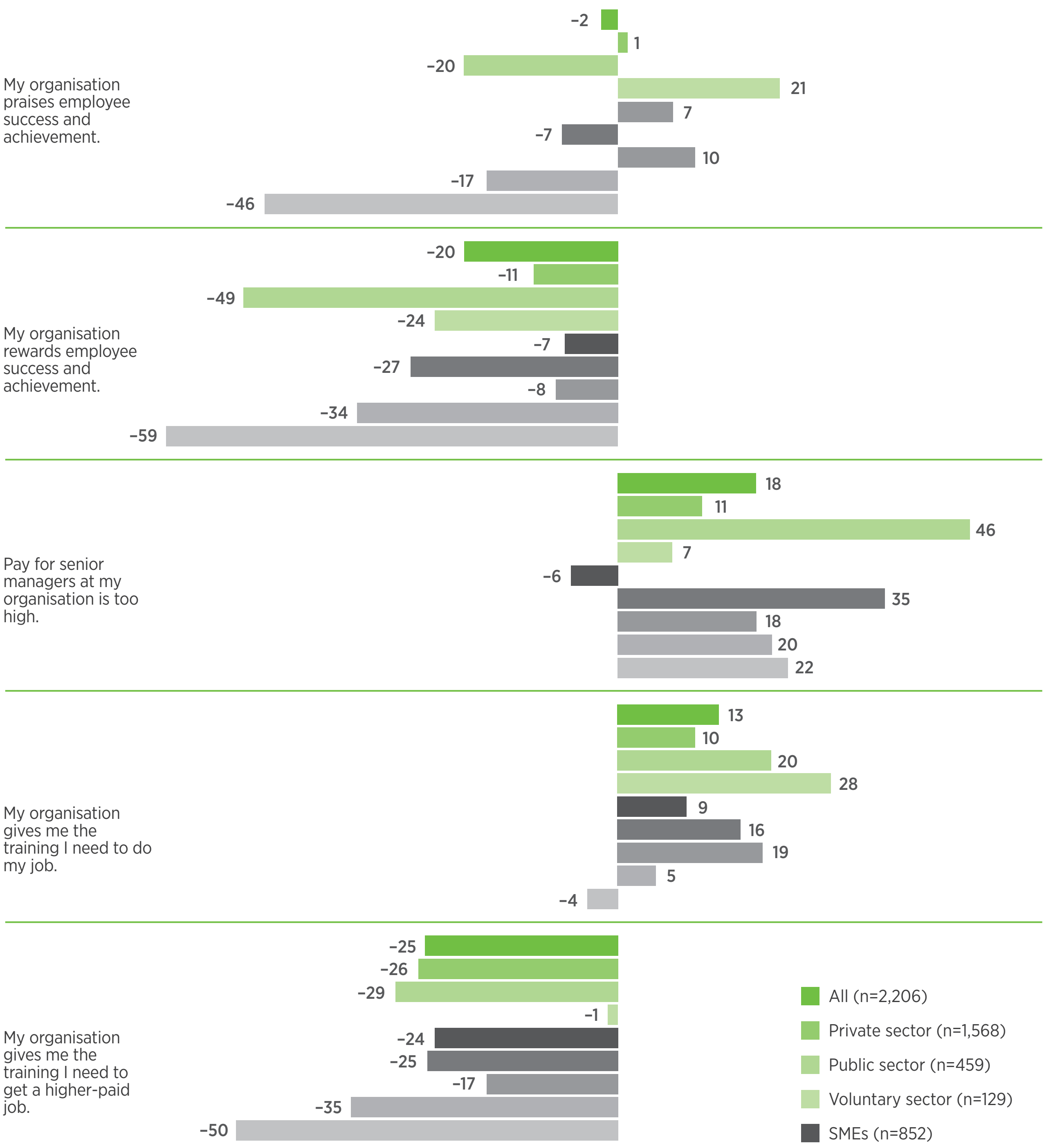
When it comes to rewarding employee performance, more employees think that their organisation is doing a poor job than think otherwise, with those in the public sector being the most negative. Even when an organisation has gone to all the cost and bother of increasing salaries, this is not reflected in a positive net satisfaction score among those who have enjoyed a pay rise. That said, the net satisfaction scores could be even lower if they had not been given a pay rise.

As regards rewarding the efforts of leaders, more employees think senior pay is too high than think otherwise. The only groups who disagree that senior managers are being paid too much are those individuals earning more than £48,000 and, even among them, their level of disagreement is quite marginal (–2), and those working in SMEs, where it may be easier for staff to see how hard senior staff work. However, taken with the earlier findings on performance, many workers see no link between senior managers’ pay and their success and achievements, which will influence their opinions about trust, fairness and motivation.

On a positive note, when it comes to performance development, more employees than not report that their organisation is giving them the training they need to do their job, with younger workers and higher-paid staff more likely to agree that this is the case. However, those respondents working for SMEs and the private sector are less likely to report they get the training they need compared with those in larger organisations and the public and voluntary sectors.

Interestingly, our survey shows that employer investment in development of employees is taking place at either end of the earnings spectrum, but not in between. Net agreement scores are highest among those who earn less than £10,000 (+20) and among those who earn between £34,000 and £48,000 (+16) or more than £48,000 (+17). Those earning more than £10,000 but less than £34,000 have net agreement scores of between +6 and +9. This suggests that employers are spending their

Figure 19 Net agreement with employment affinity statements: reward, recognition and training



Net satisfaction = agreement minus disagreement

Base: All working respondents (n=2,206)

money on management/leadership development programmes for those at the top and on basic training (such as literacy, numeracy, and health and safety) at the bottom and not doing much for those in between.

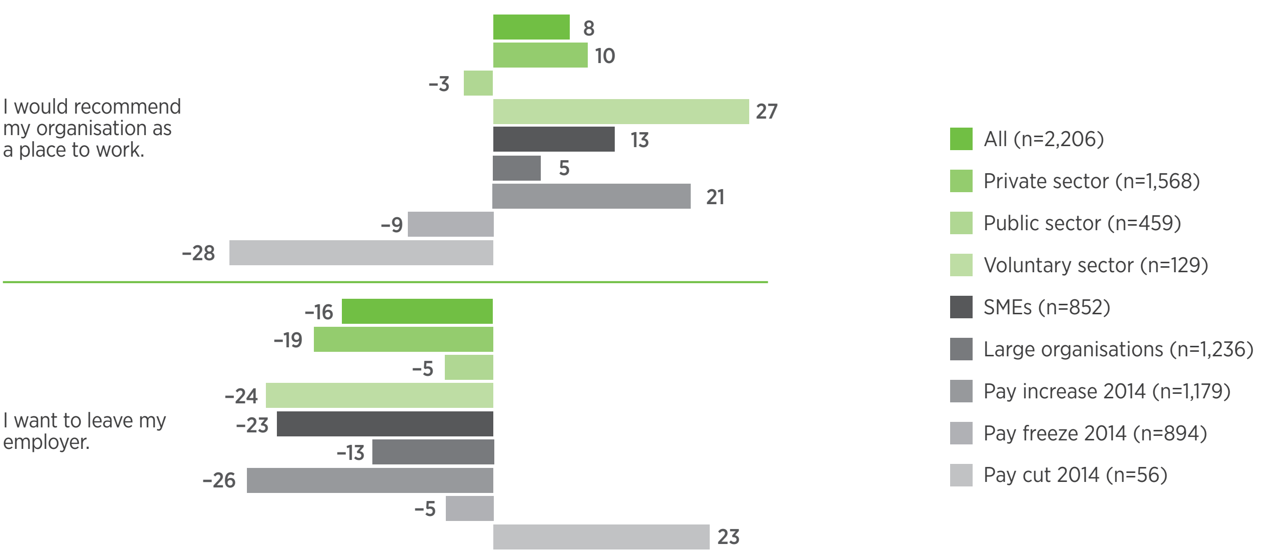
Compared with last year, the overall agreement score has fallen from +17 to +13, which does suggest that employers could do more to invest in their people to ensure that they create great products or services, such as developing the skills of middle-earners.

An even more concerning finding is that more employees than not report that their employer is not giving them the training that will allow them to do a higher-paid job. Those earning less than £34,000 a year are more likely to say (between –26 and –30) that they are not offered development opportunities that will boost their pay potential, though even those earning more than £48,000 also report a lack of development opportunities (–7). These findings will have future implications for the UK's talent pipeline, in-work pay progression, opportunities for social mobility and living standards.

Despite the reservations that many employees have about how their employers manage performance, reward, recognition, development and internal communication, slightly more of them than not would still recommend their organisation as a place to work. Similarly, there is a reluctance among most respondents (other than those who've had a pay cut) to leave their current employer. This may reflect an attitude among many workers that they think that most employers offer similar rates for the job, so they may not be financially better off changing jobs, unless it is a promotion – lower-waged employees are slightly more willing to change jobs than higher-paid workers. Also, despite poor management, development and reward, more employees than not are finding some motivation and pride in their work.

As we pointed out last year, there is ample opportunity for employers to drive up levels of employer advocacy and reduce employee quit intentions. As the economy continues to grow, it is likely that those employers that have problems rewarding, recognising and developing employee performance will lose talent to those that can.

Figure 20 Net agreement with employment affinity statements: advocacy and quit intentions



Net satisfaction = agreement minus disagreement

Base: All working respondents (n=2,206)

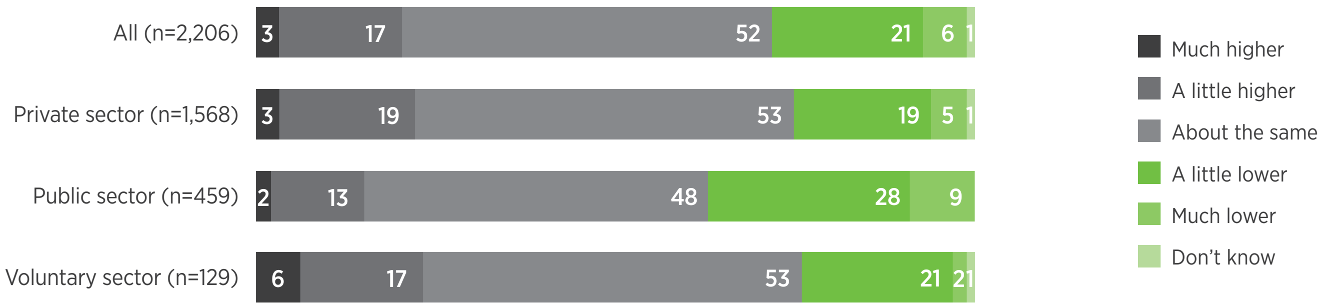
Figure 21 reveals that 20% of employees have reported an improvement in their living standards between 2013 and 2014, while 27% have reported a decline. This is a slight improvement on what employees predicted would happen in December 2013 (17% forecast an improvement and 20% a fall).

Private sector workers are more likely (21%) 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 Northern Ireland, earning less than £10,000 and have received a pay cut or a pay freeze.

Looking towards 2015, Figure 22 shows that 18% think that their living standards will improve, while 23% think that they will decline. Private sector workers are more optimistic (20%) that their living standards will rise, while public sector staff are more pessimistic (36%). The most optimistic about improving their living standards are those aged between 18 and 34, based in Yorkshire and Humberside, earning more than £48,000 and predict a higher pay rise in 2015 than they got in 2014.

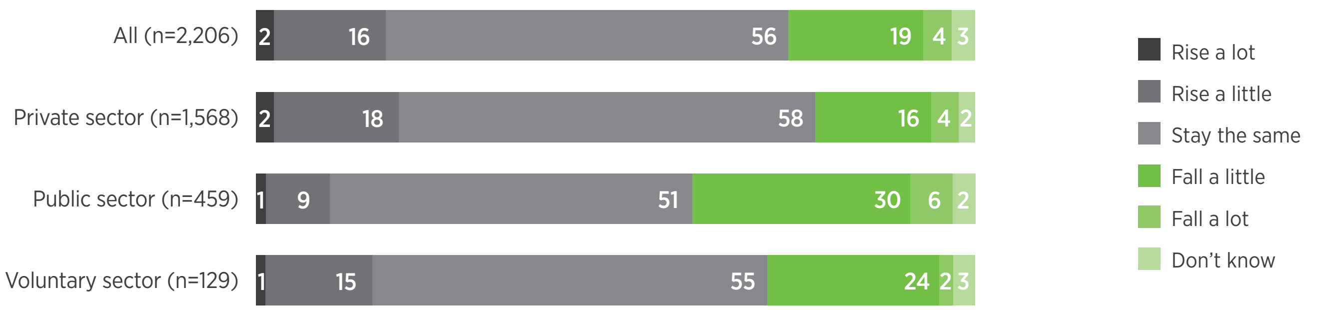
On a positive note, fewer people think their living standards will decline in the coming year (23%) than expected the same in 2013 (30%), suggesting an increasing optimism about our economic future.

Figure 21 **How employee living standards have changed between 2013 and 2014 (%)**



Base: All working respondents (n=2,206)

Figure 22 **How employee living standards are predicted to change between 2014 and 2015 (%)**



Base: All working respondents (n=2,206)

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 decisions and bonus decisions; employee pay and bonus decision forecasts for 2015; and employee attitudes towards pensions, pension reforms 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 2,255 working adults between 15 and 22 December 2014 and was selected and weighted (2,269) 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 2014 survey.

Table 10: **Sample breakdown**		
Key groups	**Number (weighted)**	**%**
All working	2,269	100
Gender		
Men	1,125	52
Women	1,144	48
Working status		
Full-time	1,611	71
Part-time	658	29
Sector		
Private sector	1,628	72
Public sector	459	20
Voluntary sector	129	6
Organisation size		
Micro organisation (2–9)	318	14
Small organisation (10–49)	318	14
Medium organisation (50–249)	272	12
Large organisation (250+)	1,248	55
Don't know	113	5
Management level		
Middle management and above	567	25
Junior manager/team leader/supervisor	454	20
No managerial responsibilities	1,248	55
Region		
London	243	11
Rest of the south of England	876	39
Midlands and Wales	455	20
North of England	492	22
Scotland	202	9
Age		
18–24	106	5
25–34	296	13
35–44	505	22
45–54	616	27
55+	746	33
Base pay		
<£9,440	341	15
£9,441–13,000	195	9
£13,301–22,000	431	20
£22,001–34,000	475	22
£34,001–48,000	326	15
>£48,000	245	11
Prefer not say	193	9

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

Incorporated by Royal Charter
Registered as a charity in England and Wales (1079797) and Scotland (SC045154)

Issued: March 2015 Reference: 6899