National Audit Office

Report
by the Comptroller
and Auditor General

Department for Work & Pensions

Automatic enrolment to workplace pensions

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National Audit Office

Department for Work & Pensions

Automatic enrolment to workplace pensions

Report by the Comptroller and Auditor General

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National Audit Office

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The report looks at how the Department for Work & Pensions has implemented the Automatic Enrolment Programme and how delivery has been managed across the three entities involved (the Department, The Pensions Regulator and the National Employment Savings Trust). It also looks at future challenges for the roll-out of the programme as smaller employers begin to join it.

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Contents

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Key facts

9m	1.8m	£1bn
expected increase in people newly saving or saving more in qualifying workplace pensions by 2018 as a result of automatic enrolment	expected number of employers who still need to comply with automatic enrolment duties by 2018	budgeted costs to government of the automatic enrolment programme up to 2018 (excluding tax reliefs)

5.4 million	people automatically enrolled into new workplace pensions by the end of August 2015
58,000	employers complied with automatic enrolment requirements by the end of August 2015
8% to 14%	proportion of people opting out of automatic enrolment by the end of August 2015 (compared with an initial assumption of 28%)
99%	proportion of eligible employers declaring compliance by 1 September 2015
50%	proportion of employers yet to enrol their workforce, which have only 1 or 2 workers
500,000	increase (from 1.3 to 1.8 million) in The Pensions Regulator's estimate of the number of employers still needing to comply with automatic enrolment duties, published July 2015

Summary

1 The government faces significant challenges in ensuring that people have adequate incomes in retirement. People are living longer and fewer have been saving into workplace pension schemes than in the past. The scope for further government spending to meet shortfalls is limited. Taking into account current reforms, state pension spending is projected to increase from 5.5% of GDP in 2015 to 7.4% in 2060.

2 Pensions policy has changed significantly over the past 10 years. Following the Pensions Commission report in 2005, successive governments have: raised the state pension age; introduced more generous increases in the state pension; reformed the state pension system; introduced new flexibilities for taking out pension savings; and made enrolment into workplace pensions automatic for most workers.[1]

3 Automatic enrolment aims to reverse the long-term decline in the number of people saving into workplace pensions. Employers will have to enrol workers into a workplace pension scheme if they are working in the UK, earn more than £10,000 per year, are over 22 years old and are under state pension age. Workers can then choose to opt out, but automatic enrolment builds on evidence of inertia in people's savings decisions to encourage more people to save for retirement.

4 The government estimates that around 9 million workers will be newly saving or saving more into workplace pensions as a result of automatic enrolment by 2018. It expects annual contributions to pensions to increase by around £15 billion by 2019-20.

5 Three organisations are primarily responsible for introducing automatic enrolment:

- The Department for Work & Pensions (the Department) pays state pensions and sets wider pensions policy. It is responsible for designing automatic enrolment policy and legislation, and for the overall management of the programme.
- The Pensions Regulator is one of the Department's arm's-length bodies and regulates workplace pension schemes. It provides guidance for employers and scheme providers and is responsible for monitoring and enforcing of compliance with automatic enrolment rules.
- The National Employment Savings Trust (NEST) Corporation is a non-departmental public body, which runs the NEST pension scheme, a defined contribution pension scheme with a public service obligation to accept any employer.

1 The Pensions Commission, *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pension Commission*, 2005. Available at: http://webarchive.nationalarchives.gov.uk/+/http:/www.dwp.gov.uk/publications/dwp/2005/pensionscommreport/main-report.pdf

6 Automatic enrolment began in October 2012, with larger employers joining the programme first. Between 2015 and 2018, the Department will extend this to the smallest employers, including those with only 1 worker. The Department is also phasing in increases to the minimum level of contributions from 2017.

The scope of this report

7 Automatic enrolment is an innovative approach to increasing retirement incomes and builds on evidence of inertia in people's savings decisions. The policy was developed in response to the recommendations of an independent commission in 2005. Its more detailed design was independently reviewed in 2010.[2] Parliament has examined automatic enrolment in detail and the overall policy has consistently received cross-party support.

8 The success of automatic enrolment will depend not just on an innovative and well-tested design, but also on how the programme is implemented. This could affect savings behaviour as well as the costs – to both government and employers – of rolling out this major programme. In this report we therefore look at how the Department, The Pensions Regulator and NEST have implemented automatic enrolment, including:

- progress in implementing automatic enrolment so far (Part One);
- how the Department and its arm's-length bodies have managed the programme (Part Two); and
- the remaining challenges in implementing the programme (Part Three).

9 The success of automatic enrolment will also depend on how it interacts with wider changes to policy. In our July 2013 report *Government interventions to support retirement incomes*, we said the government needed to take a more holistic view of measures to support retirement incomes and gain a better understanding of how they interact.[3] Pensions policy has continued to change and in Part Three of this report we consider some of the implications for automatic enrolment. We plan to develop these themes further in future work on pensions reform.

2 P. Johnson et al, *Making automatic enrolment work: A review for the Department for Work and Pensions*, Cm 7954, October 2010. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf

3 Comptroller and Auditor General, *Government interventions to support retirement incomes,* Session 2013-14, HC 536, National Audit Office, July 2013.

Key findings

Progress to date

10 **Larger employers have now introduced automatic enrolment**. The Pensions Regulator reports that 58,000 employers have now complied with their automatic enrolment duties: retaining and expanding existing qualifying pension schemes; introducing new automatic enrolment schemes; or confirming that they have no eligible workers. Large and medium-sized employers account for around 15 million eligible workers (75% of all eligible workers in the UK) (Paragraphs 1.11, 1.12 and Figure 4).

11 **More people are saving into workplace pensions**. Employers enrolled 5.4 million workers into new workplace pensions by the end of August 2015. Between April 2012 and April 2014, the overall proportion of eligible workers saving into a workplace pension increased by 15 percentage points to 70% (Paragraph 1.13 and Figure 5).

12 **Opt-out rates have been much lower than expected**. The Department originally estimated that around 28% of people would opt out of workplace pensions. Various estimates of actual opt-out rates show they have been between 8% and 14%. The Department has now lowered its overall estimate of opt-out rates for the programme to 15%. It initially expected 7 million people to be newly saving or saving more in workplace pensions as a result of automatic enrolment. It has now increased its estimate to 9 million (Paragraphs 1.14, 1.15 and Figure 1).

13 **Employer compliance has also been higher than expected**. Of those employers expected to declare their compliance with automatic enrolment duties by 1 September 2015, 99% have done so. Very few cases have proceeded to later stages of enforcement. Of those that have, 77% of employers become compliant following interventions by The Pensions Regulator (Paragraph 1.16 and Figure 15).

14 **Several private providers offer qualifying pensions for automatic enrolment, in addition to NEST**. The Department established NEST with the aim of providing any employer with a low-cost, quality pension scheme to comply with their automatic enrolment duties. In addition to NEST, several private providers offer automatic enrolment products to employers (Paragraph 1.17 and Figure 7).

15 **The programme is currently on budget**. The Department originally expected implementation of the programme to cost £1.1 billion. It reduced this to £1 billion in its 2015 estimate, largely because of reduced costs of The Pensions Regulator. Programme spending is on profile at £554 million to the end of March 2015, which is around half of total budgeted costs. The Department estimates that employers will spend £500 million setting up automatic enrolment and £140 million each year on administering automatic enrolment (Paragraphs 1.18, 1.19 and Figures 1 and 8).

Managing the programme

16 **The Department set clear aims for automatic enrolment**. The organisations involved in implementing the programme have a consistent understanding of its aims – to increase the number of people saving and the level of pensions savings – as well as supporting critical success factors. This has allowed the Department, The Pensions Regulator and NEST to consult widely with stakeholders and introduce several changes to processes and rules to reduce risks while protecting their core objectives (Paragraphs 2.2 to 2.6 and Figure 9).

17 **The Department, The Pensions Regulator and NEST have identified and tested critical assumptions about behaviour**. The Department set up a joint assumptions working group to review and update the programme's assumptions, such as opt-out and compliance rates. The Department, The Pensions Regulator and NEST have assessed the impacts of variations in outcomes compared to original assumptions on their plans and budgets. The Pensions Regulator and NEST have also reviewed operational assumptions for implementing automatic enrolment, but rely on contractors to handle changes in behaviour such as employer compliance (Paragraphs 2.7 to 2.11 and Figure 6).

18 **The automatic enrolment programme team has been small and stable**. The Department, The Pensions Regulator and NEST have worked closely together to introduce the programme, with few changes in key personnel over the past 5 years. Although there have been inherent risks of confusing responsibilities, the three bodies have a clear understanding of their roles and developed stable working relationships. All the programme team members we interviewed said this long-term stability was a major contributing factor to the success of the programme so far (Paragraphs 2.12 to 2.16 and Figure 11).

19 **The Department has developed automatic enrolment over a long period and introduced it in stages**. The progressive roll-out to employers and phased increase of minimum contribution rates have reduced risks and allowed time to test assumptions and refine processes. The Department is planning to review the programme in 2017 (Paragraphs 2.21 to 2.26 and Figure 12).

Future challenges

20 **The Department is now rolling out automatic enrolment to small employers, who pose new challenges for the programme**. The profile of employers affected by automatic enrolment is now changing dramatically. Small employers are expected to have different requirements and responses to automatic enrolment. They will also create greater operational challenges as volumes increase (Paragraph 3.2 and Figure 13).

21 **Operational risks are significant and expected volumes have increased**. While most eligible workers work for larger employers and have already enrolled, the vast majority of employers still have to start automatic enrolment. The Pensions Regulator recently increased its estimate of the number of employers by 37% to 1.8 million. This was because of changes in its assumptions about the rates of entry and exit of new employers. While around one-third of employers may not have eligible workers, the volume of employers creates significant pressure on operations. The Pensions Regulator plans to get a regular feed from HM Revenue & Customs' (HMRC) Real-time Information (RTI) system.[4] This should allow it to improve its targeting of employers with eligible workers (Paragraphs 2.20, 3.3 to 3.7 and Figure 14).

22 **The Department, The Pensions Regulator and NEST are simplifying processes for small employers**. Our review of contractors' operations highlighted the need for simplification of administrative and compliance processes, which will come under increasing pressure as volumes increase. The Pensions Regulator and NEST have designed websites and online tools to minimise demand on call centres. These reflect the experience they have gained with larger employers and early feedback from smaller employers (Paragraphs 3.8 and 3.10 to 3.11 and Figure 15).

23 **The longer-term success of the programme will depend on its ability to stimulate higher retirement incomes**. Awareness has increased and very early opt-out rates in smaller employers are encouraging. Translating broader pensions enrolment into higher retirement incomes will depend on a number of factors including: maintaining enrolment when minimum contributions increase; encouraging higher optional rates of contributions; ensuring that fees and charges are appropriate; establishing a simple and transparent mechanism for handling multiple pensions pots; and embedding clear and effective governance of pensions schemes. The Department will also need to monitor the way the programme interacts with wider reforms (Paragraphs 3.12 to 3.21 and Figures 16 and 17).

24 **The role of NEST within the pensions market is still evolving**. Revenues at NEST and other pension providers are highly uncertain and are affected by greater than expected private provision, extensions of start dates and lower real wage increases. NEST is funded by a government loan and it will grow its funds under management as enrolment and contributions increase. It will need to grow funds under management significantly before it can be self-supporting (Paragraphs 3.22 to 3.26).

4 Real-time Information (RTI) is an HMRC led initiative which changes the way UK employers make Pay-As-You-Earn (PAYE) submissions. It requires all employers not only to notify HMRC of their liability to PAYE at the time or before they make payment to their employees, operate PAYE at the time of payment and pay duty each month (or quarter for small employers), but also to provide details about payments and deductions for individuals in-year rather than just at the end of the year.

Conclusion on value for money

25 Large and medium-sized employers have successfully introduced automatic enrolment. The Department, The Pensions Regulator and NEST have worked well to design the programme and to engage with providers and other stakeholders in developing rules and processes. By increasing the number of people saving in workplace pensions, and providing a crucial first step to increasing retirement savings, the automatic enrolment programme has so far delivered value for money. Looking ahead, early indications suggest the programme is also on track to deliver value for money in improving retirement incomes in the longer term.

26 But there are significant risks. In the short term, smaller employers are likely to behave differently in response to the administrative requirements of automatic enrolment. The volume of smaller employers will impose significant pressures on operations. In the longer term, the Department will need to ensure that more widespread enrolment translates into higher retirement incomes as it tackles remaining questions about the design of automatic enrolment, wider reforms and market development.

Recommendations

27 In the shorter term, The Pensions Regulator should ensure it is able to manage the operational challenges of introducing automatic enrolment for small employers. It should also:

a speed up the introduction of information from HMRC's RTI system to improve its targeting of employers and compliance monitoring, for example by checking declarations of compliance;

b work with its contracted provider to review and develop further contingency measures to reduce pressures on operations; and

c together with the Department, strengthen an integrated intelligence function about user behaviour, building on its own customer insight work and drawing in data from providers and NEST.

28 To ensure the longer-term success of automatic enrolment, the Department should continue to work with The Pensions Regulator and NEST to encourage and protect savings for retirement. In particular, it should:

d set out the scope of the review in 2017 for consultation to ensure there are appropriate measures in place to evaluate the achievement of long-term aims and objectives;

e assess the impact of wider pensions policies, including pensions flexibilities, on automatic enrolment and monitor emerging trends and concerns, paying particular attention to the responses of employers and scheme trustees; and

f review NEST's role in the market and its impact on competitive restrictions, and continue to review the long-term sustainability of the current funding arrangement.

Part One

Progress against plans

1.1 The government faces significant challenges in ensuring that people have adequate incomes in retirement. People are living longer and there is limited scope for further government spending to meet shortfalls in retirement income. Taking into account recent reforms, the Office for Budget Responsibility already expects state pension spending to increase from 5.5% of GDP in 2015 to 7.4% in 2060.

1.2 Compounding this challenge has been a decline in workplace saving. Until recently, fewer eligible workers have been participating in workplace pension schemes. The proportion of eligible workers participating fell from 63% (11.9 million) in 2004 to a low of 55% (10.7 million) in 2012.

1.3 In 2005 an independent commission recommended a series of measures to encourage saving and improve support in retirement.[5] Successive governments have introduced reforms to pensions policy, including increases in the state pension age, flexibility for people with defined contribution pension savings and the roll-out of requirements on employers to automatically enrol workers into a workplace pension. In Appendix Three we summarise the major developments in pensions policy of the past decade.

Encouraging people to save through automatic enrolment

1.4 The 2005 commission recommended automatic enrolment of workers into workplace pensions as a critical first step in improving retirement outcomes. Following the commission's report, the Department for Work & Pensions (the Department) has worked with other partners to develop the policy and necessary legislation.

1.5 Automatic enrolment aims to increase the number of individuals newly saving or saving more in a workplace pension by 9 million by 2018 (**Figure 1**). By increasing the number of people contributing to workplace pensions, the Department expects people to increase annual workplace saving by between £14 billion and £16 billion a year from 2019-20.

5 The Pensions Commission, *A New Pension Settlement for the Twenty-First Century: The Second Report of the Pension Commission*, 2005. Available at: http://webarchive.nationalarchives.gov.uk/+/http:/www.dwp.gov.uk/publications/dwp/2005/pensionscommreport/main-report.pdf

Figure 1
Business case estimates for automatic enrolment

The Department expects 9 million more people to be newly saving or saving more for retirement

	2010 estimate	Latest estimate
Costs		
Budgeted programme costs (net)	£1.1bn	£1.0bn
Costs to the Exchequer (tax relief per year)	£1.5bn	£2.2bn
Costs to employers per year:		
Contributions	£3.7bn	£5.7bn
Administration – Year 1	£492m	£500m
Administration – Recurring	£141m	£140m
Benefits		
Number of people newly saving or saving more	5m–9m	9m
People saving in National Employment Savings Trust (NEST)	2m–5m	2m–4m
Additional saving into a workplace pension (per year)	£9.6bn	£14bn–£16bn
Social welfare benefits (net for the period to 2050)	£44bn–£61bn	£32bn–£65bn

Notes

1 Estimates of budgeted programme costs are net of revenues from NEST (i.e. contribution and annual management charges) and are in cash terms.

2 2010 estimated costs to the Exchequer are in real terms, uprated to 2015-16 prices using the GDP deflator index.

3 2010 estimated costs to employers per year: contributions and administration and additional saving into a workplace pension are in real terms, uprated to 2015-16 prices using consumer price indices.

4 Latest estimated costs to the Exchequer, costs to employers per year: contributions and additional people saving into a workplace pension are in real terms, uprated to 2015-16 prices from DWP's *Workplace pensions: update of analysis on automatic enrolment* (2015) publication.

5 Latest estimated costs to employers per year: administration are in real terms, uprated to 2015-16 prices using consumer price indices.

6 Social welfare benefits are calculated as a net present value from 2012 to 2050. It is equivalent to the additional lifetime income people feel they have gained as a result of 'consumption smoothing'. 2010 and latest estimates are in real terms, uprated to 2015-16 prices using consumer price indices.

7 Costs to the Exchequer and employer contributions are higher than originally estimated, due to lower than expected opt-out rates from workplace pensions.

Source: National Audit Office analysis of business cases

Encouraging people to save through automatic enrolment

1.6 Automatic enrolment builds on evidence of inertia in people's savings decisions to encourage them to save. Employers must enrol eligible workers – those working in the UK, earning more than £10,000 per year, who are over 22 years old and who are under state pension age – into a workplace pension. Employers and workers both make contributions, and the government adds tax relief to savings in most cases. People can opt out of the scheme but behavioural research suggests that people will often continue with default choices.

1.7 Three organisations are primarily responsible for introducing automatic enrolment. The Department is responsible for automatic enrolment policy and legislation, and for the overall management of the programme. The Pensions Regulator regulates trust-based pension schemes for automatic enrolment. It provides guidance to employers and is responsible for monitoring and enforcement of compliance by employers with automatic enrolment rules.[6] The National Employment Savings Trust (NEST) Corporation is a non-departmental public body set up to ensure that all employers have at least one available provider. It has a public service obligation and any UK employer can use the NEST scheme to meet its new automatic enrolment duties as set out in the Pensions Act 2008.

1.8 Automatic enrolment also involves a large number of individual employers, as well as other partners such as private pension providers. **Figure 2** outlines the process for introducing automatic enrolment. The Pensions Regulator notifies each employer about its 'staging date', the start date from which their automatic enrolment duties begin under legislation. The employer has to choose a scheme provider and enrol eligible workers. It then has to submit a declaration of compliance to The Pensions Regulator within 5 months of its staging date.

6 Some defined contribution schemes are run by a trust appointed by the employer.

Figure 2

Overview of process for automatically enroling workers

Automatic enrolment builds on evidence of inertia in savings behaviour

Notification (depending on staging date)	**The Pensions Regulator (TPR)** notifies employers of their staging date for automatic enrolment **TPR** notifies employers, 12, 6 and 1 months ahead of staging **TPR** provides guidance, templates and information for employers **Employers** decide on schemes and prepare internal processes **Employers** communicate with employees
Joining window (6 weeks)	**Employers** have 6-week joining window after staging date to enrol eligible workers **Employers** can postpone a worker's automatic enrolment by up to 3 months if needed **TPR** provides guidance and template letters for informing staff **Employers** inform employees about the scheme and opt-out rights
Opt-out window (1 month)	**Employees** decide whether to opt out of pension scheme providers **Scheme** providers refund any initial contributions **Employees** refund any deducted contributions to workers who opt out and scheme providers refund employers any contributions already paid to the pension scheme
Compliance (5 months)	**Employers** declare compliance with TPR and keep records **TPR** monitors compliance against a 5 month deadline **TPR** undertakes compliance and enforcement action if needed **Employers** continue to enrol new eligible employees **Employers** send contributions to scheme provider from enrolment
Re-enrolment (every 3 years)	**TPR** notifies employers of need to re-enrol all employees **Employers** enrol all eligible employees **Employees** have opportunity to opt out again
Exit or transfer (as needed)	**Employees** can choose to transfer savings to a new employer's scheme **Scheme** providers handle transfers in and out of schemes **NEST** allows transfers from April 2017

Notes

1 Notification is The Pensions Regulator's letter informing an employer of its automatic enrolment duties.

2 Joining window is the 6-week period from the eligible jobholder's automatic enrolment date.

3 Opt-out window is the time allowed for a worker to opt out of a qualifying scheme.

4 Compliance is the act of all eligible employers declaring they have carried out their duties.

5 Re-enrolment is the requirement for employers to put their eligible jobholders back into automatic enrolment.

6 Exit or transfer occurs where workers leave after 1 month.

Source: National Audit Office analysis of The Pensions Regulator performance assumptions and data

Staging and phasing the programme

1.9 The Department originally planned to introduce automatic enrolment over 3 years between 2012 and 2015. In January 2010 it reviewed the programme and extended implementation over 4 years between October 2012 and September 2016. In November 2011, the Department further extended the programme to February 2018.

1.10 The Department is introducing automatic enrolment gradually in two ways (**Figure 3**):

- **Staging the introduction of employers**
  From October 2012 to April 2015 large and medium-sized employers started automatically enrolling eligible workers. Between January 2016 and February 2018, nearly 1.8 million smaller employers – those with fewer than 50 workers – will need to comply with automatic enrolment duties, including new employers set up after April 2012. From June 2015 the Department began to roll out automatic enrolment to a small number of these employers to identify different types of behaviour ahead of the main roll-out – it refers to this as a 'pathfinder'.

- **Phasing in the level of contributions**
  Once most employers have introduced automatic enrolment the Department will increase minimum contributions for qualifying pensions schemes. This allows workers and employers to get used to making contributions before increasing rates of saving. The minimum contribution rate for employers increases from 1% to 2% from October 2017 and to 3% from October 2018.

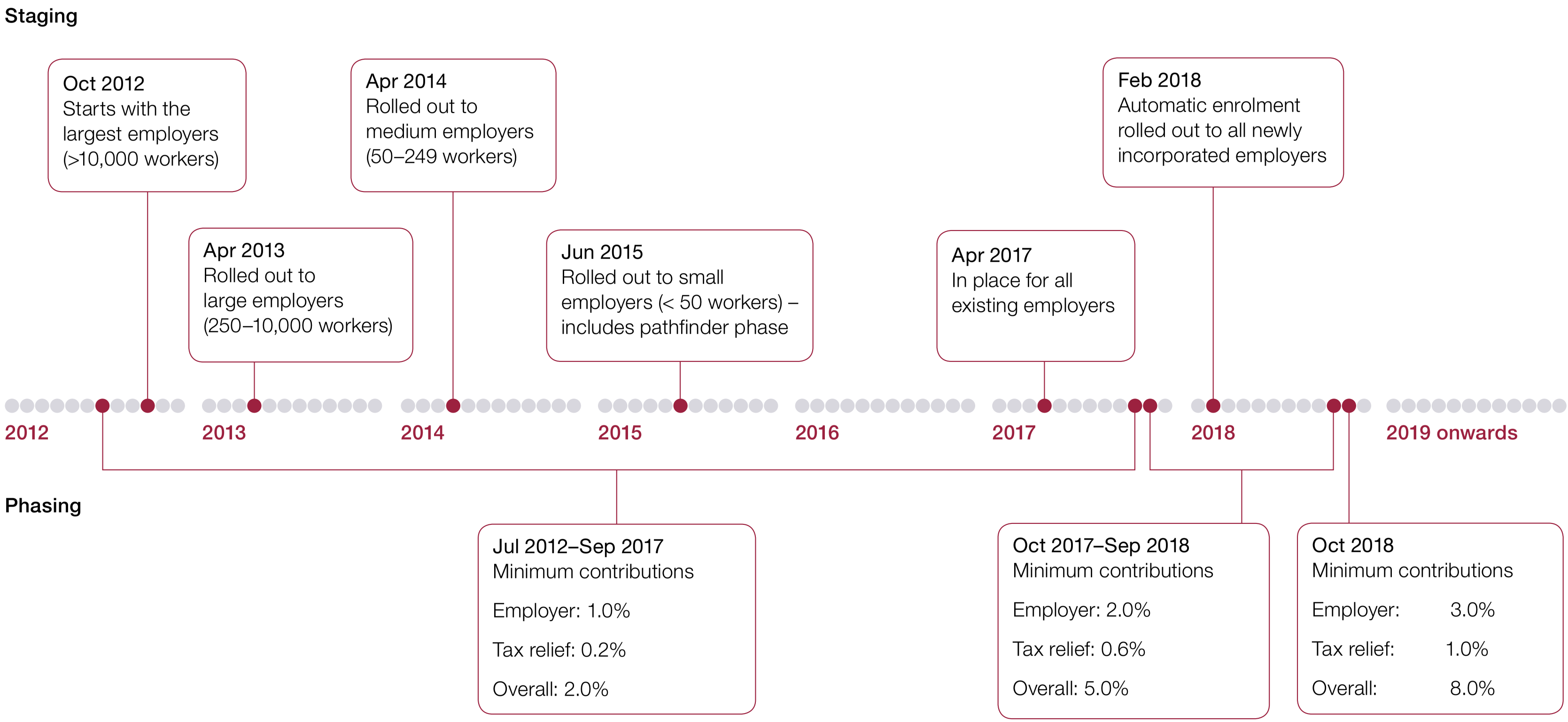
Roll-out for larger employers complete

1.11 Large and medium-sized employers have now introduced automatic enrolment. By the end of August 2015, 5.4 million eligible workers had been automatically enrolled by 58,000 employers. Employers also informed The Pensions Regulator that, of the 20.5 million workers they employed, a further 9.4 million eligible workers already belonged to a pension scheme equivalent to the ones operating under automatic enrolment and 5.2 million were not eligible.[7]

1.12 Large organisations with more than 250 workers accounted for 70% of the 5.4 million people enrolled into an automatic enrolment scheme to the end of August 2015. Of these, 27% were from medium-sized employers and 3% were from small employers. Although larger employers account for a small proportion of all employers (less than 3%), they account for around 75% of all eligible workers (**Figure 4** on page 18).

7 In addition, 0.4 million people had defined or hybrid scheme transitional arrangements.

Figure 3
Timeline for automatic enrolment



Note

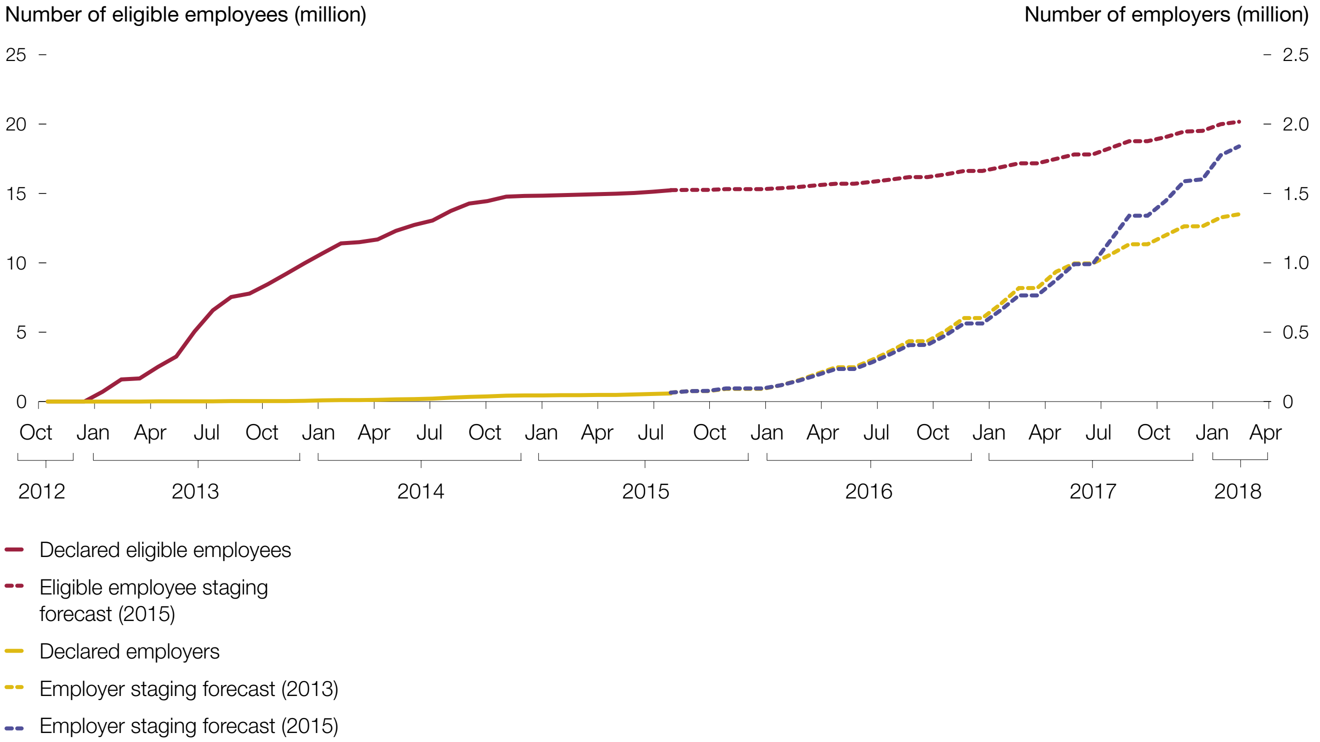
1 Newly incorporated employers refer to employers created in 2015-16 and 2016-17.

Source: National Audit Office analysis of departmental data

Figure 4

Implementation of automatic enrolment

Larger employers, accounting for 75% of workers, have introduced automatic enrolment



Notes

1 For the purposes of this report we define 'larger' employers as businesses which employ 50 workers or more. Smaller employers are defined as businesses which employ 49 workers or fewer.

2 The automatic enrolment monthly declaration of compliance report shows the number of eligible workers who have been automatically enrolled into a qualifying workplace pension by their employer. These data are based on information provided to The Pensions Regulator by employers at the point in time when they complete their declaration.

3 Some of the eligible employees that have been automatically enrolled will be new savers, whereas others may be saving more as a result of being automatically enrolled into a qualifying scheme from a non-qualifying scheme. These data are not disaggregated into the 2 categories of savers.

4 Workers may opt out after being automatically enrolled. As employers are not required to report on opt-outs, this is not reflected in the data.

5 If an automatically enrolled individual moves employment they may be automatically enrolled again into a qualifying scheme by their new employer and captured within their new employer's declaration of compliance return.

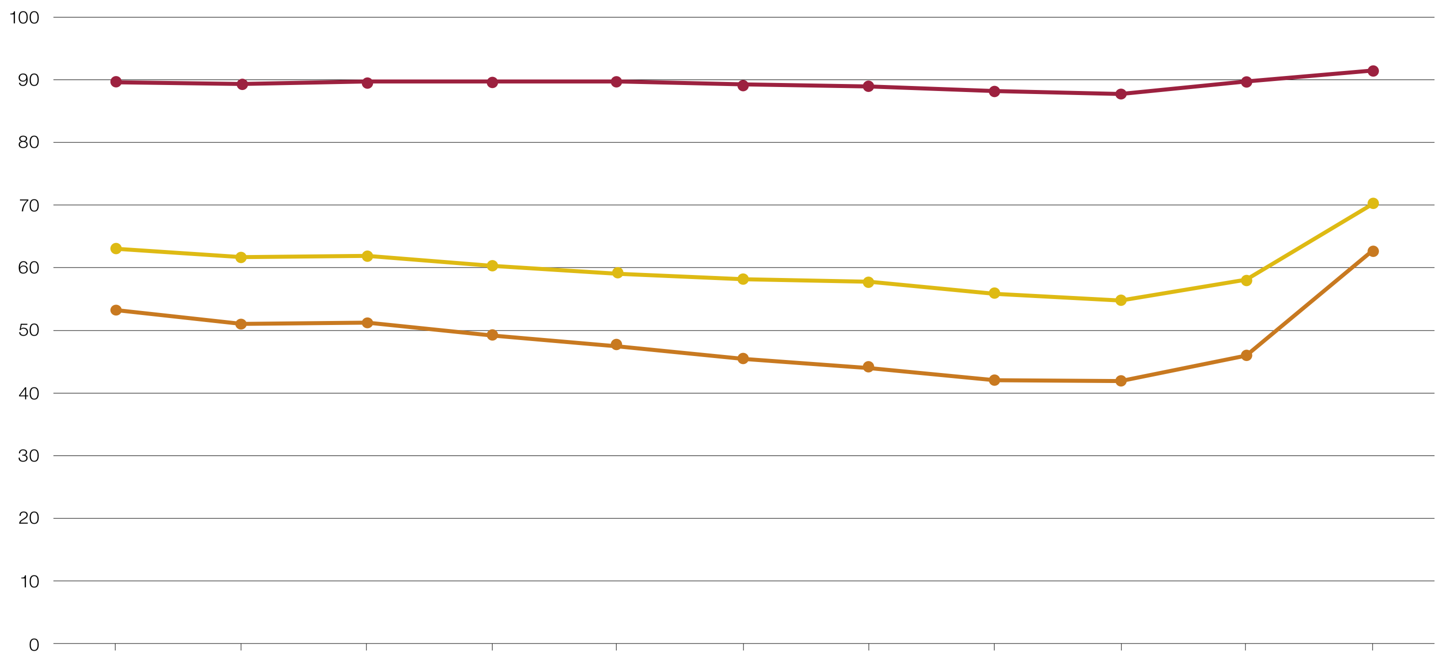
Source: National Audit Office analysis of the Labour Force Survey and data from The Pensions Regulator

More people saving than expected

1.13 More people are saving into a workplace pension. Between 2012 and 2014 covering only the first 18 months of the programme the overall proportion of eligible workers saving into a workplace pension increased by 3.2 million people or 15 percentage points from 55% to 70% (**Figure 5**). Much of this has come from increases in private sector saving, which rose by 21 percentage points over this period.

Figure 5
Eligible workers participating in workplace pensions by sector

Percentage of participating eligible workers increased between 2012 and 2014



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Public	90	89	90	90	90	89	89	88	88	90	91
Private	53	51	51	49	47	45	44	42	42	46	63
Total	**63**	**62**	**62**	**60**	**59**	**58**	**58**	**56**	**55**	**58**	**70**

Notes

1 Workplace pension participation of eligible employees is measured using the Office for National Statistics' Annual Survey of Hours and Earnings (ASHE), which is measured with reference to April each year. Automatic enrolment started in October 2012.

2 The ASHE is based on a sample of employees, completed on their behalf by their employer, and collects information on all types of workplace pensions: occupational pension schemes, group personal pensions and group stakeholder pensions.

3 The ASHE does not contain an automatic enrolment flag so data on workplace pension participation are not disaggregated in terms of people who are newly saving or those people who are saving more.

4 The 3.2 million increase between 2012 and 2014 is not directly comparable with the 5.4 million measure of new automatically enrolled workers from The Pensions Regulator, Declaration of Compliance statistics, both because it covers an earlier time period and because of definitional and data collection differences.

Source: Department for Work & Pensions estimates derived from the Office for National Statistics' Annual Survey of Hours and Earnings, Great Britain 2004–2014

1.14 Opt-out rates have been lower than expected (**Figure 6**). Workers have the option to leave an automatic enrolment scheme if they wish. If they leave within 1 month of being automatically enrolled, this is referred to as opting out. The Department estimated that around 28% of people would opt out but reported rates so far, capturing varying stages of implementation, have ranged from 8% to 14%, including very early opt-out data from the pathfinder stage.

Figure 6

Selected performance assumptions

Opt-out and non-compliance are lower than expected

	Assumption	Original estimate	Outturn (revised estimate)
Notification (depending on staging date)	Number of employers to declare compliance	1.3 million	1.8 million
	Proportion of employers with eligible workers	Not measured	65%
Joining window (6 weeks)	Employer knowledge:		
	Awareness	95%	96%–99%
	Understanding	80%	87%–89%
Opt-out window (1 month)	Opt-out rates	28%	8%–14%
Compliance (5 months)	Compliance rates	90%	99%
Re-enrolment (every 3 years)			
Exit or transfer (as needed)	Persistency of saving (3 out of 4 consecutive years)	>50%	78% (2014)

Source: National Audit Office analysis of The Pensions Regulator's performance assumptions and data, Department information on opt-out and estimates derived from the Office for National Statistics' Annual Survey of Hours and Earnings, Great Britain 2004–2014

1.15 The impact of higher enrolment will take some time to feed through into higher savings, partly because savings accumulate over time and partly because minimum contribution levels are currently low. So far, the amount of money being saved by eligible employees into workplace pensions has increased from £73.7 billion in 2012 to £80.3 billion in 2014. The Department now expects that annual saving in a workplace pension will increase by between £14 billion and £16 billion by 2019-20 as a result of automatic enrolment.

1.16 Employer compliance has also been higher than expected. By September 2015 almost all large and medium-sized employers had declared compliance with their automatic enrolment duties to The Pensions Regulator.

Developing market for pensions

1.17 Several private providers offer qualifying pension schemes for automatic enrolment in addition to NEST. The Department established NEST to ensure that all employers would have access to a pension scheme for their workers. NEST reported in its annual accounts for 2014-15 that it has more than 2 million members and is working with more than 14,000 employers.[8] This is equivalent to 30% of all employers declaring compliance as at 31 March 2015. However, since the programme began, the market has expanded and other providers have entered who offer pensions to all employers (**Figure 7** overleaf).

Spending within profile

1.18 The Department estimates the whole-life cost of the automatic enrolment programme to be £992 million by 2018. The Department and its arm's-length bodies spent £554 million up to the end of March 2015. This was equivalent to 56% of the overall budget (**Figure 8** on page 23).

1.19 In 2010 the Department expected the programme to cost £1.1 billion. It reduced its estimate to £1 billion in June 2015 largely because The Pensions Regulator spent less on compliance and enforcement than anticipated and now expects to spend £287 million rather than the £384 million predicted in the 2010 business case.[9]

8 National Employment Savings Trust Corporation, *Annual report and accounts 2014-2015*, HC 229, July 2015.
9 In cash terms.

Figure 7
Provision of automatic enrolment pensions as at 31 March 2015

Most workers are enrolled in defined contribution schemes

Type	Description	Enrolled workers	Percentage
Defined benefit	Mainly larger employers offering final salary pension schemes	310,000	6
Trust-based defined contribution schemes	NEST and a number of pension providers offer products to all employers	2,779,800	53
Contract-based defined contribution schemes	Providers offer regulated group personal pensions	1,832,200	35
Other	Includes hybrid schemes	278,400	6
		5,200,000	**100**
Other qualifying schemes	Workers that were already members of a qualifying scheme on their staging date	9,289,000	

Notes

1 Although some pension schemes which have products aimed at the automatic enrolment market have committed to offering eligible schemes targeting all employers only NEST has a public service obligation to take all employers.

2 Defined benefit pension schemes provide retirement benefits that are based on earnings and the length of time that a person has been a member of the scheme. In contrast the benefits a person receives from a defined contribution scheme also partly depends on how investments perform over time.

3 Trust-based pension schemes are established under trust and administered by trustees. Trust-based pensions can either be single employer or multi-employer. 'Master trusts' are an example of a multi-employer scheme.

4 Group personal pensions are contract-based pensions which involve a contract between individual members and a product provider. The Financial Conduct Authority regulates providers of contract-based pension schemes.

5 Totals may not sum due to rounding.

Source: National Audit Office analysis of The Pensions Regulator data

Figure 8
Programme spending

The programme has spent 56% of total budgeted programme costs

	Pre-2012 (£m)	2012–2015 (£m)	2015 onwards (£m)	**Total (£m)**
NEST scheme costs	168	193	230	**591**
NEST non-scheme costs	40	2	2	**43**
Employer education and compliance	43	69	176	**287**
Department for Work & Pensions communications	6	28	26	**60**
Department for Work & Pensions project management costs	4	1	5	**11**
Total	**261**	**293**	**438**	992
Forecast costs (2010 business case)	308	369	398	**1,075**
Variance	47	76	-40	**83**

Notes

1 NEST scheme costs include the loan to NEST Corporation, interest and a public service obligation offset payment which reduces the cost of servicing the loan to the government cost of borrowing.

2 Non-scheme costs are those incurred as a result of being a public entity and funded through grant-in-aid.

3 Employer education and compliance is the cost of The Pensions Regulator education, compliance and enforcement procedures.

4 Communications is the Department's advertising and marketing campaigns to raise awareness of automatic enrolment.

5 Project management cost is the Department's programme management team.

6 Figures presented in cash terms and may not sum due to rounding.

Source: National Audit Office analysis of Department for Work & Pensions data

Part Two

Management of the programme

2.1 In Part One we showed that the early stage of the automatic enrolment programme is on track and leading to more people saving into pensions. In this part we look at the management of the programme. Appendix Two explains how we have assessed management of the programme against our core management cycle.

Protecting the core aims of automatic enrolment

2.2 In our May 2015 report *Welfare reform – lessons learned*, we found that major reforms not only need clear aims, but also need to: protect those core aims over the course of large and complicated programmes; explore different ways of achieving those aims; and exploit wider opportunities across government.[10]

2.3 The automatic enrolment programme has clear aims, which are to increase the number of savers and the value of savings in workplace pensions. The Department for Work & Pensions (the Department), the National Employment Savings Trust (NEST) and The Pensions Regulator have identified other critical success factors, such as employer awareness, but there is a clear hierarchy and link between these different factors.

2.4 Success in automatic enrolment does not necessarily mean that the Department will achieve the more fundamental objectives of increasing retirement incomes or improving economic outcomes. In our report *Government interventions to support retirement incomes*, we found that these interventions are complex and interdependent.[11] For example, higher workplace saving could be offset by reductions in other forms of saving, and by how individuals, employers and the wider market respond to the programme. Over time the Department will need to review the link between automatic enrolment and its wider aims for retirement. But in the shorter term higher enrolment and workplace savings are logical and important first steps towards higher retirement incomes.

10 Comptroller and Auditor General, *Welfare reform – lessons learned*, Session 2015-16, HC 77, National Audit Office, May 2015.
11 Comptroller and Auditor General, *Government interventions to support retirement incomes*, Session 2013-14, HC 536, National Audit Office, July 2013.

2.5 The existence of clear aims and priorities has allowed the Department and its delivery partners to adapt the programme, and make clear trade-offs between policy objectives and operational concerns. For example, as part of its response to the *Making automatic enrolment work* review in 2010, the Department simplified the operational challenges of small contributions by increasing the threshold level of earnings for automatic enrolment.[12] The Department has also simplified and extended roll-out in response to feedback from employers (**Figure 9** overleaf).

2.6 Looking more widely, government departments are improving their understanding of employers through several channels including automatic enrolment, HM Revenue & Customs' (HMRC's) Real-time Information (RTI) system and other policies such as the national minimum wage. Government is not yet at the point where it has a fully joined-up approach across all these areas but The Pensions Regulator has started to exploit these links. For example, it is planning to use RTI to improve information on employers and eligible workers.

Testing and reviewing assumptions

2.7 Our report *Welfare reforms – lessons learned* highlighted the importance of testing critical assumptions with delivery partners. This helps to identify risks, avoid over-optimism in planning and develop responses to variation.

2.8 Recognising the importance of assumptions about volumes and opt-out rates, the Department set up a joint assumptions working group in 2008. The Department, The Pensions Regulator and NEST have continually reviewed and updated assumptions affecting the operational roll-out of the programme and the success of automatic enrolment. These include opt-out rates, volumes of employers, provider market development and employer compliance.

2.9 As we described in Part One, the success of automatic enrolment is exceeding many of the Department's and The Pensions Regulator's assumptions. This is a positive sign that assumptions have been developed with a degree of challenge and caution. For example, assumptions about opt-out rates were set above available benchmarks in 2010, avoiding over-optimism and allowing the Department to increase its expectations of performance over time (**Figure 10** on page 27).

2.10 While there is widespread recognition of the importance of monitoring and testing assumptions, we found less analysis and assessment of available responses in the case of problems. The programme team reviews data, providing early warnings of problems ahead, and has held contingency planning workshops. As a last resort it has set out an 'emergency pause' procedure to apply if the programme was unable to cope with unexpected increases in demand or changes in behaviour. And the Department, The Pensions Regulator and NEST are continuing to develop the range of responses they might introduce if demand rises.

12 P. Johnson et al, *Making automatic enrolment work: A review for the Department for Work and Pensions*, Cm 7954, October 2010. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf

Figure 9
Automatic enrolment rule changes

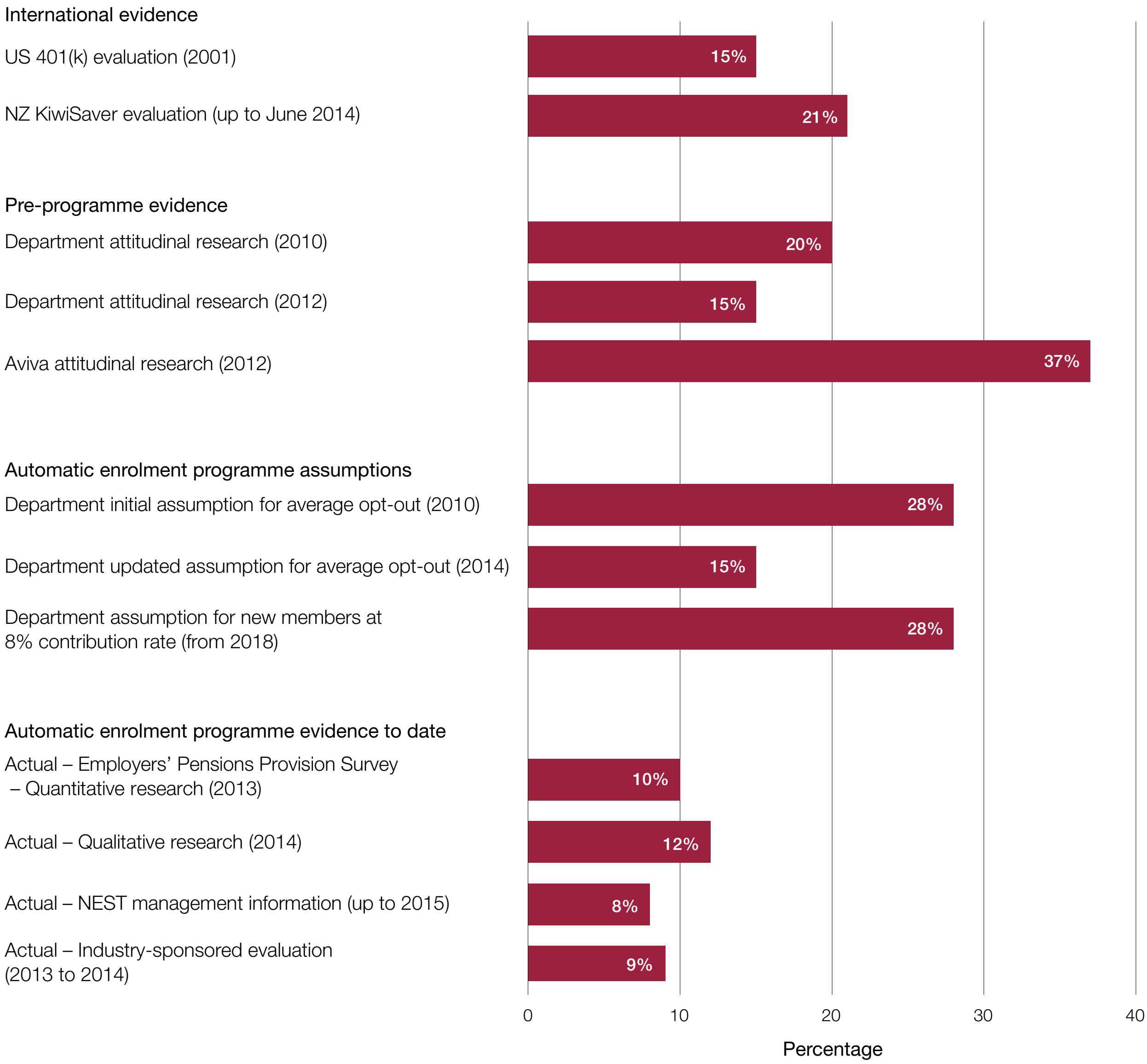
The Department has introduced changes to the programme in response to consultation and operational learning

	Before roll-out	After roll-out
Notification (depending on staging date)	Increase in enrolment threshold to align with income tax threshold, with contributions based on national insurance threshold	New qualifying criteria/exemptions from employer duties Rationalisation of information requirements on eligible jobholders
Joining window (6 weeks)	One-month joining window Introduced waiting period (postponement for up to 3 months)	Extended to 6 weeks Reduced types of postponement notices from 4 to 1
Opt-out window (1 month)	Simplification of opt-out process	
Compliance (5 months)	Revised code of practice for maintaining contributions Simplified certification process for meeting requirements of automatic enrolment (eligible schemes)	Declaration (requirement to declare compliance with automatic enrolment duties) extended from 4 to 5 months Extended deadline for passing worker contributions to a pension scheme
Re-enrolment (every 3 years)	Flexibility for employers to re-enrol 3 months either side of re-enrolment date	
Exit or transfer (as needed)		Removal of NEST restrictions in 2017 that limit the amount individuals can contribute towards their pensions and prohibit the transfer into or out of the scheme

Source: National Audit Office analysis of Department for Work & Pensions documentation

Figure 10
Estimates of opt-out rates

Opt-out rates have been lower than expected



Notes

1 Opt-out rates for the automatic enrolment pathfinder stage have not been included here but to date, although very provisional, have been within the range we use elsewhere in this report (8%–14%).

2 Department attitudinal research in 2010 and 2012 reported respondents who said they would opt out and respondents who said they were not sure whether they would opt out. The Department took account of this uncertainty in defining opt-out rate assumptions.

3 The industry-sponsored evaluation evidence rate is a simple average of published research by Zurich (2013), Legal and General (2013), Standard Life (2013), Scottish Widows (2013), National Association of Pension Funds (2013) and Chartered Institute of Personnel and Development (2013). The Department has taken assurance from industry evidence; it does not, however, endorse or use these findings in programme planning.

Source: National Audit Office analysis of: Madrian and Shea, power of suggestion: Inertia in 401(k) participation and savings behaviour, 2001; OECD, *Pensions Outlook 2014*, 2014; DWP research, *individuals' attitudes and likely reactions to the workplace pension reforms 2009*, 2010; DWP research, attitudes to pensions: the 2012 survey, 2012; Aviva, working lives survey, 2013; DWP research, *employers' pension provision survey*, 2013; DWP research, *automatic enrolment: qualitative research with employers staging in 2014*, 2014; NEST management information and Department for Work & Pensions management information

2.11 In our view, The Pensions Regulator will also need to undertake further work to validate the accuracy of employer declarations. Measures of compliance are based largely on declarations from employers. As the size and type of employer changes, The Pensions Regulator will need to extend its testing of the accuracy of these declarations.

Small and stable programme team

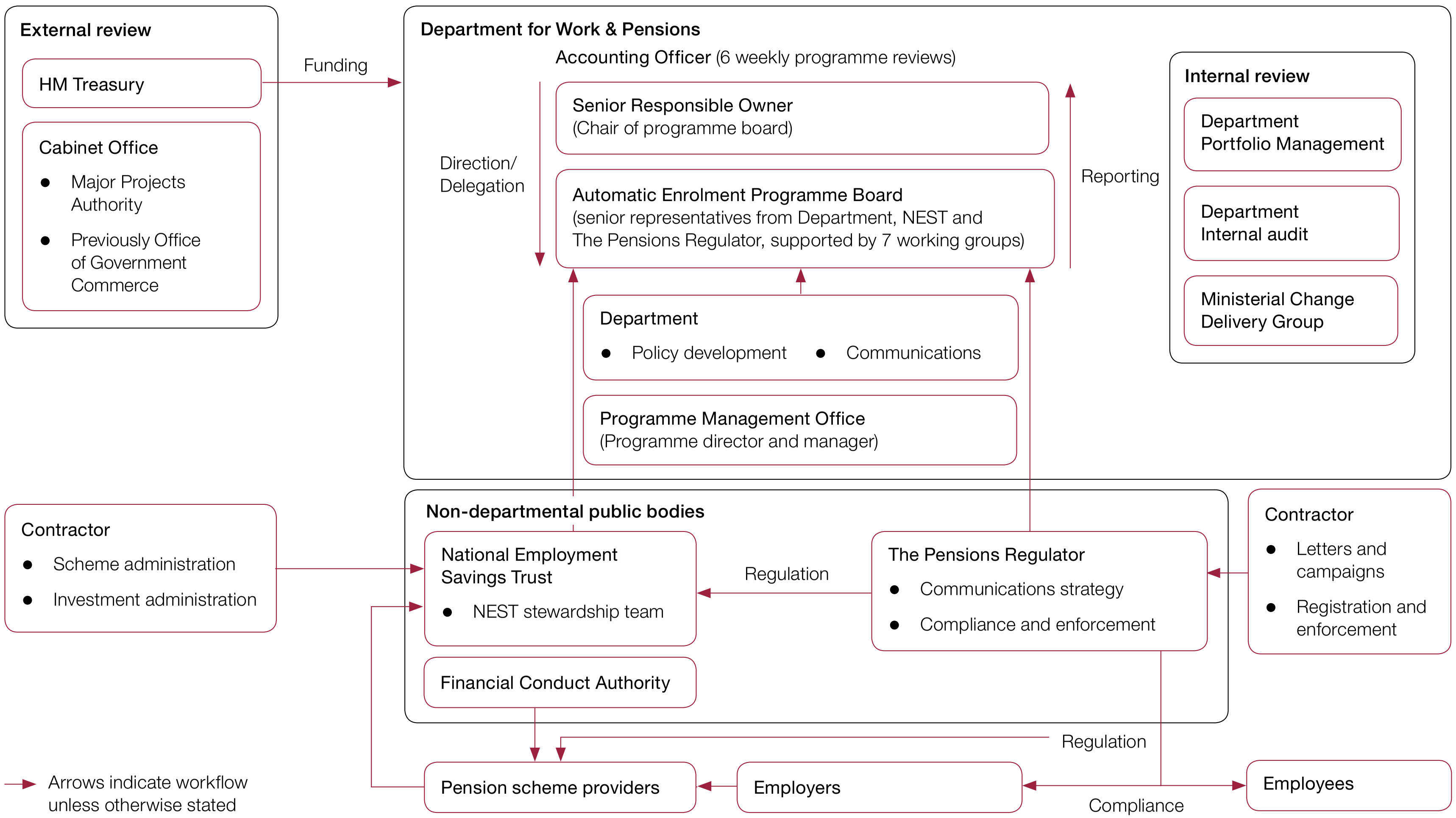
2.12 In previous studies, we have found that the stability and clarity of senior leadership roles are critical to the success of major programmes. Ensuring clear governance and decision-making can be particularly challenging where there are several organisations jointly leading a programme and a wide set of delivery partners, such as pension providers, payroll services and employers.

2.13 The governance arrangements for automatic enrolment are also complicated by the need to maintain appropriate distance between NEST as a pensions provider and The Pensions Regulator as the industry regulator. While the oversight arrangements for the programme described in **Figure 11** are similar to many major programmes, balancing the relative responsibilities of the organisations involved is inherently challenging.

2.14 Despite these challenges, the lead organisations for automatic enrolment are clear about their relative roles and responsibilities. The Department has had 4 senior responsible owners for the programme since 2007, but overall the programme team is stable and experienced. An internal audit report from October 2014 concluded that the programme had effective management structures, clearly defined roles and responsibilities, an appropriately qualified team and effective planning and progress monitoring processes in place. In our own work we noted that working relationships were well established but that inter-organisational discussions also encouraged a healthy level of challenge.

2.15 In our interviews with the Department, The Pensions Regulator and NEST we also found that the relationships with third-party suppliers were seen as working well. Both The Pensions Regulator and NEST outsource most operational functions to contractors. In both cases we found that there had been challenges at the beginning of the working relationships with contractors, but that both parties had worked together to solve these problems and that working relationships were well established and stable.

Figure 11
Oversight of the programme



Notes

1 There are 3 nominated senior responsible owners (SRO) for the automatic enrolment programme. The principal SRO and chair of the programme board is from the Department. NEST and The Pensions Regulator each have nominated senior responsible owners responsible for their delivery strands and providing support to the Department SRO.

2 Automatic enrolment programme board provides overall governance, strategic direction and assurance for the automatic enrolment programme.

3 The Programme Management Office maintains programme plans, coordinating assurance reporting activities, managing the risk process and liaising with stakeholders.

4 Ministerial Change Delivery Group reviews and challenges the programme periodically. Consists of ministers and senior managers.

Source: National Audit Office analysis of Department for Work & Pensions information

2.16 While governance arrangements appear to be working well, there remain some areas for further improvement:

- The Department needs to improve its oversight of the programme. In October 2014 its internal audit team noted that assurance of information provided by NEST and The Pensions Regulator could be improved. In December 2014 the Major Projects Authority found that the Department had put standard programme disciplines in place but that its oversight could be strengthened.
- The roles of the multiple programme board sub-groups should be clearer. The programme board is supported by 7 different sub-groups with overlapping membership and activities.
- Changes in assumptions and communications should be better integrated. In some cases decisions are made or assumptions change in ways that could affect other parties, but we found that they were not always well communicated across the different partners.

Some gaps in information about employers

2.17 The programme requires timely information to help managers identify problems and make informed decisions. The Pensions Regulator collects and analyses a range of data covering programme milestones, key performance indicators, contractor performance and early warning indicators. It produces a monthly dashboard, which is then reviewed by the programme board.

2.18 The programme board monitors and assesses performance in a structured way against 5 critical success factors. Two of these critical success factors directly align with the two principal aims of the programme. The board reviews a 'dashboard' of data linked to each of the critical success factors. Of the 19 measures supporting critical success factors, we found that most (13 of the 19, or 65%) were specific, measurable, achievable, realistic and time-bound.

2.19 While the use of management information is well structured and aligned with the programme's objectives, we noted some areas for improvement. For example, the Department does not routinely measure employer costs and overall value for money. While increasing enrolment and savings are necessary steps to increasing retirement incomes and achieving value for money, the Department also needs to take into account wider costs.

2.20 There are also important gaps in information about employers. For example, The Pensions Regulator and its contractor rely on data from HMRC to identify employers with eligible workers. The Pensions Regulator is often unable to discriminate between workers and director-only companies, and so can initiate unnecessary compliance action against employers without eligible workers. It plans to obtain a regular RTI feed from HMRC and is developing more tailored website support, which should allow it to target employers with eligible workers more accurately.

Evaluating the programme over stages

2.21 In our report *Welfare reform – lessons learned*,[13] we noted that the Department has implemented most major programmes in phases. This allows evaluation and learning over the course of the programme, and is particularly important in a programme such as automatic enrolment, where people's behaviour is uncertain.

2.22 Development of the automatic enrolment policy and its implementation have taken place over a relatively long period, allowing consistency of direction. The programme has benefited from widespread support and a recognition of the long-term nature of pensions reform. The programme may also have benefited from avoiding a common trade-off between accelerating savings and ensuring safe delivery. Unlike many recent reforms, extending the timetable for automatic enrolment reduces short-term public spending.

2.23 Gradual policy development has allowed the Department to work with other partners and users to revisit the programme design, and to work through complicated questions, such as the impact of NEST on the pensions market. The long staging profile has reduced implementation risks. Starting with larger employers has allowed the programme to move large numbers of people into automatic enrolment while avoiding the challenges of dealing with smaller employers. Phasing-in minimum contribution rates reduces the risk of workers opting out or not saving persistently because it gets them used to the idea of regular pension saving before gradually increasing contributions.

13 See footnote 10.

2.24 The Department has committed to a review in 2017, although the full scope of this review is yet to be confirmed (**Figure 12**). It has established evaluation plans to provide evidence for that review. The Department published an evaluation strategy in 2011 and a baseline evaluation report in October 2012 against which performance is measured. It published interim evaluation updates in 2013 and 2014 and expects to publish a further report in November 2015.

2.25 At this point, the Department has not set out a proposed scope for the 2017 review. Some initial plans – such as reviewing restrictions on transfers and charges – have been pre-empted by recent policy decisions. Furthermore, several providers and employers have asked for stability in the short term on automatic enrolment rules and requirements.

2.26 In our view, the Department should develop and consult on the scope of the 2017 review now without submitting specific proposals and destabilising the programme, or pre-empting future policy decisions. Having a clearer idea of the critical questions for the future of automatic enrolment may also help to focus and structure current learning and evaluation activities, and identify potential gaps.

Figure 12

Evaluation and learning over stages

The Department is evaluating the progress of automatic enrolment

Type of approach	Process
Progress monitoring	Critical success factor structure agreed and reported quarterly to the automatic enrolment programme board.
	Exception reporting of management information to the automatic enrolment programme board.
Evaluation	Workplace pension reform evaluation strategy (published July 2011).
	Annual automatic enrolment evaluation reports (published in November of each year).
Test and learn	The Pensions Regulator collaboration with the Behavioural Insight Team to test approaches to communicating with employers.
	Pathfinder project with a randomly selected group of smaller employers (staging in June 2015).
Major reviews	*Making automatic enrolment work* (October 2010).
	Review (planned for 2017).

Note

1 P. Johnson et al, *Making automatic enrolment work: A review for the Department for Work and Pensions*, Cm 7954, October 2010. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/214585/cp-oct10-full-document.pdf

Source: National Audit Office analysis of internal management information

Part Three

Future challenges

3.1 Automatic enrolment is still at a relatively early stage. While most workers are now subject to automatic enrolment, most employers will carry out their duties in the next two years. In operational terms this is a significant part of the programme. Furthermore, the ultimate success of automatic enrolment depends on long-term behaviour and the effects of decisions that are still to come, for example increases in minimum contribution levels. In this part we consider these two types of challenges.

Increasing and uncertain volumes

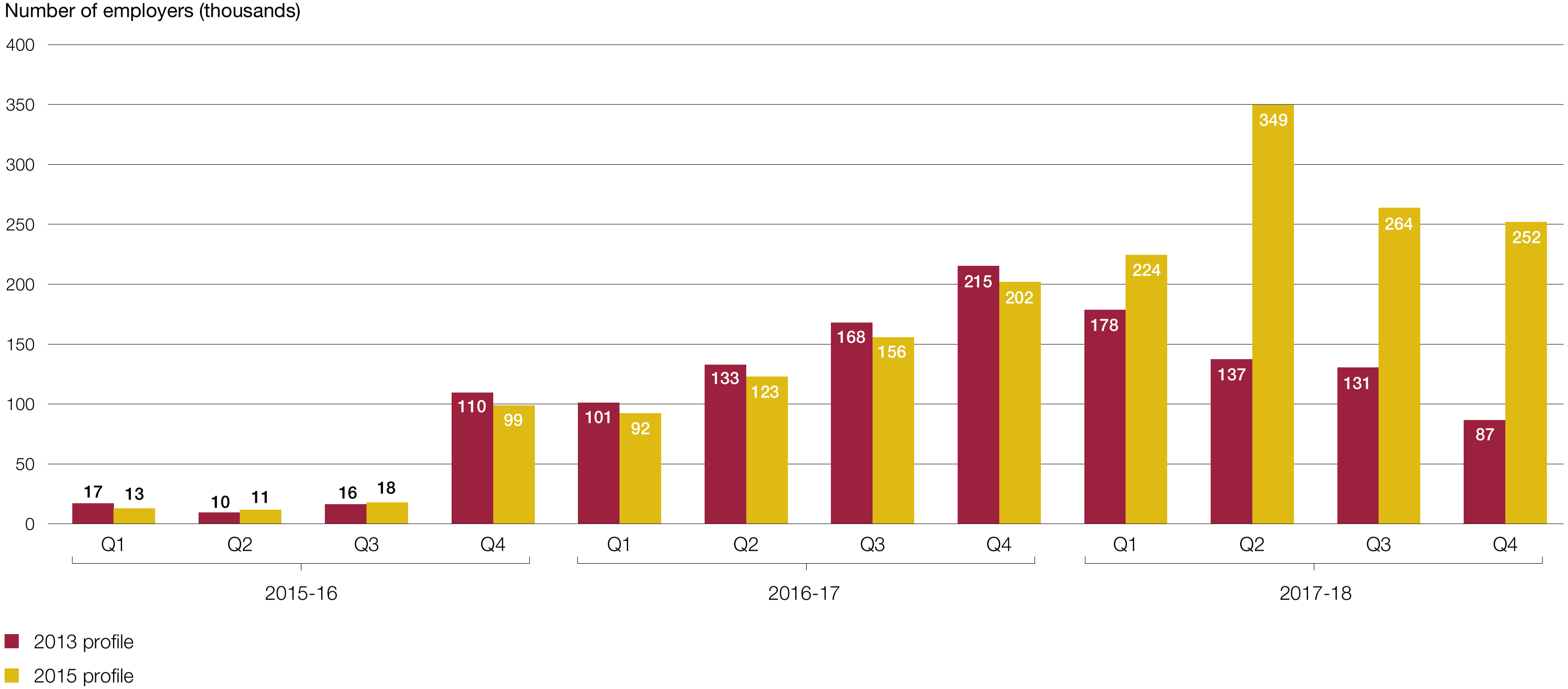
3.2 The Department is now rolling out automatic enrolment to employers with fewer than 50 workers, who constitute the overwhelming majority of employers. From January 2016, 900,000 employers with 1 or 2 workers (equivalent to around 50% of all employers) and a further 300,000 employers with 3 or 4 workers will need to enrol their eligible workforce. The Pensions Regulator estimates that around 100,000 of these are employers of carers or personal support workers.

3.3 The Department and The Pensions Regulator remain uncertain both about the total volume of employers to enrol their workers. The extent of uncertainty has been highlighted by a large recent change to The Pensions Regulator's estimate of the number of employers. It increased this by 37% (from 1.3 to 1.8 million) because of an increase in the number of new businesses that have started up and fewer employers going out of business than originally forecast. The Pensions Regulator continues to monitor volumes given uncertainties around future new employer start-ups and survival rates.

3.4 The Pensions Regulator now expects the number of employers implementing automatic enrolment duties to peak between July and September 2017 rather than between January and March 2017 (**Figure 13** overleaf). It estimates that only about 65% of these employers will have eligible workers, although almost all will have to assess their workforce for eligibility and make a declaration to The Pensions Regulator that they have complied with their duties.

Figure 13
Changes in estimates of small employer automatic enrolment profile

The Pensions Regulator has increased its forecast of employer volumes by 37%



Source: National Audit Office analysis of The Pensions Regulator data

Impact on operational risks

3.5 The increase in the number of employers will place significant pressure on both The Pensions Regulator and the National Employment Savings Trust (NEST) (**Figure 14** overleaf). Both outsource most day-to-day transactions to third parties and rely on the accuracy of capacity modelling to ensure they meet targets for customer service. Both are updating their resourcing models to take account of the 37% forecast increase in the number of employers. For example, our estimates show that The Pensions Regulator and its contractor may need around the equivalent of 150 full-time staff in 2017 to manage the expected increase in employer volumes. The Pensions Regulator will need to monitor this carefully and consider resourcing implications early to manage future demands on it.

3.6 Early indicators suggest increasing pressure on operations. The Pensions Regulator collects data to provide early warnings of changes in demand, such as the percentage of all calls answered within 20 seconds of the call entering a queue. It also compares the amount of correspondence and the number of calls with its forecasts. Calls and correspondence between June 2014 and August 2015 have sometimes been significantly higher than forecast, in part because of the impact of The Pensions Regulator writing to all employers – an exercise that nevertheless improved its information on employers. On measures such as response times for email queries, The Pensions Regulator and its contractor have sometimes struggled to meet targets.

3.7 Our review of contractor operations highlighted some time-consuming processes that will come under increasing pressure as volumes increase. Although The Pensions Regulator and NEST review contractor capacity plans, the ability of the programme to respond quickly to changes in demand is limited by the lead-in times necessary to balance supply and demand. For example, NEST estimates that its contractor would need at least 3 months to recruit and train extra staff and adding infrastructure capacity has a lead time of 5 months.

Figure 14
Operational challenges

There are important operational challenges for automatic enrolment

	Description	Impact
Supporting employers enrolling their workers	The Pensions Regulator provides support to employers. The contractor often has to gather and edit information about employers if inaccurate, using time-consuming processes. The contractor is introducing more web-forms and ways to reduce demand but these are still being developed.	If smaller employers require more support there is a risk of bottlenecks and performance declining.
Ensuring compliance	The Pensions Regulator issues compliance letters when employers are late in declaring compliance. Many of these compliance letters are not needed as employers turn out to be ineligible. Quality of data on employers makes it hard to assess eligibility (until Real-time Information (RTI) feed is complete). Completing a compliance review is taking longer than expected.	Compliance overall is higher than expected. But with longer reviews and some unnecessary work this could lead to bottlenecks.
Processing transfers	From 2017 NEST will be able to make transfers to and from other schemes.	Higher NEST processing costs. Increase in volume of calls and contacts while still staging, putting pressure on performance.

Source: National Audit Office analysis of management information

Several initiatives to simplify processes

3.8 The Pensions Regulator recognises the operational challenges of introducing automatic enrolment for small employers and the need to improve and simplify processes. It has put in place several initiatives including:

- **Improving awareness**
  It estimates it will spend £3.4 million on communications and a further £2.9 million on marketing and advertising to provide guidance to employers on how to enrol their workers into a pension scheme. About 88% of small employers are now aware of their duties.

- **Bringing forward demand**
  During 2015 The Pensions Regulator sent an 'all employer' letter to all small employers. As well as increasing awareness of automatic enrolment, this has unexpectedly helped to bring forward questions from employers, update records and smooth demand on The Pensions Regulator and its contractor.

- **Improving access to information**
  The Pensions Regulator commissioned a website research report in April 2015. It found that satisfaction among the smallest employers was low (42% compared with an average for all employers and their advisors of 53%). This was particularly for 'ease of finding information', 'accurate and up-to-date information' and 'online search'. The Pensions Regulator is simplifying its website so that employers can identify specific duties according to their circumstances.

- **New processes and tools**
  The Pensions Regulator is introducing a simplified process for smaller employers known as 'Step-by-step'. This will allow employers to state when they do not have eligible employers and better support their compliance needs. It is also introducing a basic assessment tool to support employers through the 'assess a worker' activity.

- **Using data to target compliance interventions**
  Although compliance is high overall, The Pensions Regulator has had to send notice letters for late declarations of compliance to around 1,900 employers. Many of these employers (around 37%) have asked for reviews and had these notices revoked because they had no eligible workers (**Figure 15** overleaf). From August 2016 The Pensions Regulator is planning to use RTI from HM Revenue & Customs to improve its information about smaller employers and avoid unnecessary activity.

Figure 15
Compliance and enforcement as at 1 September 2015

	Number	Percentage (%)
Compliance		
Employers required to enrol by 1 September 2015	56,977	
Employers who have ceased trading	3,926	
Active employers	53,051	
Compliant employers	52,292	99
Non-compliant employers	760	1
Enforcement – targeting		
Number of letters sent	2,545	
Number of employers receiving at least one letter	1,878	
Number of employers challenging the letter	701	37
Of those employers challenging the letter, proportion where the review outcome was changed		92
Enforcement effectiveness		
Number of employers compliant after letter	1,452	77
Number of non-compliant employers	426	23

Notes

1 Where an employer has resolved its breach after the notice deadline, the notice would not be counted as effective as it would have been issued with a further notice. Thus effectiveness is only measured where employers have resolved their breach on or before the notice deadline.

2 The figure of 56,977 for employers required to enrol is slightly different from the rounded figure of 58,000 employers referred to in the key facts section and elsewhere in this report. This is because the latter includes employers who have voluntarily declared compliance with their obligations ahead of their allocated staging date.

3 Some of the employers recorded above as non-compliant would be expected to become compliant as they progress through the enforcement process.

4 The Pensions Regulator is responsible for encouraging compliance with employer duties and has a range of powers to persuade employers to discharge their duties on time. These include: statutory notices – or 'letters' as referred to above – to remedy a breach of employer duty; penalties (fixed penalty notice and escalated penalty notice) where the regulator judges there has been a failure to comply with a statutory notice; civil penalties where an employer fails to pay contributions; and court actions to collect unpaid penalties.

5 Where the employer does not agree with the issue of a statutory notice it can request a review or refer its case to a tribunal.

6 Figures do not sum due to rounding.

Source: National Audit Office analysis of The Pensions Regulator data

3.9 As of 31 March 2015, the Department had spent £34 million on communications and advertising in order to increase awareness and understanding of automatic enrolment. In October 2015 it launched a new campaign aimed at the remaining 1.8 million small employers and their workers. The Department expects to spend £60 million on communications by 2018.

3.10 Early findings from the pathfinder indicate that employers using NEST are setting up their accounts in a simpler and less technical way than earlier in the programme. NEST tracks the time taken to complete employer set-up and early results show that timings are in line with large and medium-sized employers. Very preliminary opt-out rates for workers enrolled in NEST during the pathfinder are consistent with the range of 8%–14% for larger and medium-sized employers. Since the pathfinder, NEST has introduced further changes to its website to make it work better with payroll software and has further simplified its online set-up process for employers and their delegates.

3.11 Overall, we found that both The Pensions Regulator and NEST were aware of the operational challenges of automatic enrolment for small employers and were responding to feedback and reviewing processes. Both organisations need to monitor these risks closely. The programme team is reviewing further contingency arrangements.

Continuing uncertainty in behaviour and future decisions

3.12 The impact of automatic enrolment and the behaviour of workers, employers and market providers are all uncertain. There are also decisions still to be made about how automatic enrolment savings are managed, for example in the way transfers of small savings pots are handled (**Figure 16** overleaf).

3.13 The challenges of understanding behaviour are well recognised. For example, the Department has consulted extensively and commissioned more than 70 reports on automatic enrolment, including 14 behavioural studies. These have mainly used qualitative research techniques to ascertain the likely response to the programme and compliance with it. The Department, The Pensions Regulator and NEST are closely monitoring the behaviour of pathfinder small employers and their workers. Early indications from the pathfinder suggest high levels of awareness and, albeit at a very early stage, continued low levels of opt-out.

Figure 16
Future developments affecting behaviour

Many aspects of automatic enrolment are still to come or be decided

Planned changes	
Increasing contribution rates	Minimum contribution rates will gradually increase to 8% by October 2018 and may affect opt-out.
Lifting of NEST restrictions	Optional transfers allowed between NEST and other providers and contribution limits removed from April 2017.
Certification of private providers	More pension providers invited to undergo the Institute of Chartered Accountants in England and Wales assurance programme for trust-based occupational pension schemes serving multiple employers (referred to as 'master trusts').
Undecided areas	
Adequacy of contributions	The Work and Pensions Select Committee has recommended that minimum contribution rates for automatic enrolment should increase beyond 8%.
Handling small pots	The Department is considering options to tackle risks to higher retirement incomes arising from small pension pots. The Department estimates that people will work for on average 11 employers during their working life, leading to 12 million small pension pots by 2050, if no reforms to small pots are implemented.
Market development	Providers will continually need to consider what products to offer in the market.

Source: National Audit Office analysis of Department for Work & Pensions documentation and discussion with stakeholders

3.14 In March 2015 the Work and Pensions Select Committee found that the prospects for sustaining pension saving over the longer term remain uncertain, particularly taking into account the possible impact of increases to minimum contribution rates. The Department will need to closely monitor savings persistency at each stage of contribution increases.[14] If we allow for opt-out and apply the Department's persistency estimate of 78% to the 5.4 million workers currently enrolled then we can say that around 3.8 million workers (of the 5.4 million) might be expected to save persistently.

3.15 The government has also introduced measures aimed at protecting savers, such as limiting the level of charges on funds under management and a ban on active member discounts.[15]

14 The Department defines savings persistency as saving in 3 out of 4 years.
15 Active member discounts are those where workers paying into a scheme are given lower management charges than those who have stopped paying into the scheme.

3.16 The Department will also need to consider how eligibility for automatic enrolment evolves over time and which groups are affected. At the moment, the Department estimates that 14% of workers aged 22–64 are not eligible because their earnings fall below the earnings threshold but this will include an estimated 70,000 people with several jobs that cumulatively exceed the threshold level.[16]

Importance of wider interactions

3.17 Automatic enrolment does not operate in isolation and there are wider pensions reforms that will affect people's savings decisions and incentives. These include:

- **New flexibilities in taking money out of pensions**
  Since April 2015, people have a wider range of choices in accessing their pension savings and are no longer limited to selecting an annuity.

- **New requirements for guidance or advice**
  The government has introduced requirements on members of certain pension schemes to seek advice before transferring a pension. The government has also established Pension Wise to give guidance to people considering flexible options and the Pensions Advisory Service and Citizens Advice are providing services as part of this.

- **Stronger governance of schemes**
  The government has introduced several changes to improve the governance of pension schemes, such as independent governance committees for contract-based schemes. The Occupational Pension Schemes (Charges and Governance) Regulations 2015 set out minimum governance standards for relevant occupational pension schemes.

3.18 Many of these reforms are complementary to automatic enrolment, for example in recognising the need to improve governance of workplace pensions schemes at a time when a large number of people will be saving for the first time. The Department's private pensions team works across these policy areas to identify the cumulative effects of these changes in estimates and forecasts. The Department also reviews the interactions with changes to the state pension, such as introduction of the new state pension, and has issued a combined impact assessment for automatic enrolment and the new state pension.

16 DWP statistical release, workplace pensions: Update of analysis on automatic enrolment, September 2015. Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/460867/workplace-pensions-update-analysis-auto-enrolment.pdf.

3.19 In some cases the interaction between reforms may create specific challenges or risks. For example, some scheme trustees outsource the administration of schemes to third parties. Depending on scheme rules, they may transfer the savings of former workers (deferred pensions) into different schemes that do not necessarily meet the conditions of automatic enrolment. The introduction of automatic enrolment is likely to result in a much larger number of deferred pensions. At the same time, some trustees may be cautious about offering new flexibilities within their own schemes and rely increasingly on third parties to help manage this process. Both factors could lead to a growing number of deferred pensions with limited oversight.

3.20 In our reports on *Government interventions to support retirement incomes* and *Regulating defined contribution pension schemes* we highlighted the importance of developing an integrated understanding of retirement incomes, and identified 5 main risks to consider (**Figure 17**).[17]

3.21 While we recognise the priority that the Department, The Pensions Regulator and NEST have to give to delivering automatic enrolment and other reforms safely, it will be important to revisit the integration of recent reforms. With planned reviews of charges and automatic enrolment in the near future there is an opportunity for the Department to revisit the wider issues in a coordinated way.

Evolving provider market and the role of NEST

3.22 The market for providers of automatic enrolment pensions is still evolving. Along with NEST, there are a small number of other providers of automatic enrolment pension schemes for smaller employers. Market interest has always been uncertain and the introduction of NEST was designed to ensure all employers had access to a low-cost, quality pension scheme for their workers. Employer and worker behaviour, the timing of staging and the future lifting of restrictions on NEST are all factors that may lead to further evolution in the market.

3.23 Because NEST's costs relate to the number of employers and people within the scheme, and its revenues depend on fees from savings which people have yet to build up, NEST depends on a loan from the Department. At 31 March 2015 it had a £387 million loan, which will increase over the lifetime of the programme. In the 12 months ending 31 March 2015, NEST Corporation, the trustee of the NEST pension scheme, reported income of £18.5 million and incurred expenditure of £98.7 million, with the funding deficit being met by the loan.

17 Comptroller and Auditor General, *Government interventions to support retirement incomes*, Session 2013-14, HC 536, National Audit Office, July 2013; Comptroller and Auditor General, *Regulating defined contribution pension schemes,* Session 2012-13, HC 466, National Audit Office, July 2012.

Figure 17
Integration risks for retirement incomes

Our previous work identified 5 risks to integrated support for retirement incomes

	Description of risks	Impact of automatic enrolment programme
Strategy	No overall accountability for saving. Lack of measures of progress and success in improving retirement incomes. Individual interventions managed separately.	Broadening the range of ways people can save for retirement. Forcing greater recognition of wider interventions in assessing behaviour.
Incentives	Effect on savings incentives of means-tested benefits and social care. Interaction between pension saving and housing, consumer debt and savings products.	Increasing segmentation of employee and employer types in understanding different incentives to save. Introducing a new behavioural model to address savings deficit. Recognising the need to apply minimum earnings thresholds.
Regulation	Lack of common framework and objectives for regulation. Risk of gaps in regulation and accountability for workplace pensions.	Increasing focus on defined contribution schemes in The Pensions Regulator. Forcing out important regulatory questions around charges and governance.
Complexity	Lack of alignment in rules and eligibility. Risk of confusing signals about retirement ages.	Improving understanding of need to save for retirement. Multiple pots risk increasing complexity for managing retirement savings.
Information	Overlapping provision of information on financial planning and retirement. Lack of coherence of existing provision.	Increasing reliance on employer communications. Continued debates about adequacy of advice as opposed to information or guidance.

Source: Updated from Comptroller and Auditor General, *Government interventions to support retirement incomes*, Session 2012-13, HC 536, National Audit Office, July 2013

3.24 Although NEST will grow its funds under management as enrolment and contributions increase, its funding model is inherently uncertain. As a simple illustration, for NEST to have been able to meet its costs in 2014-15, it would have needed to have around £20 billion in funds under management. Given the government's stated aim that NEST Corporation should be run on a not-for-profit basis and repay the Department's loan in full, it will therefore need to grow its assets under management significantly from the £420 million in March 2015.

3.25 Since the loan agreement with NEST was signed 5 years ago, there has been a significant amount of change in UK pensions. The implementation of automatic enrolment and the introduction of NEST into the market have brought about considerable shifts within the pensions industry. In addition, the introduction of a charge cap, strengthened governance and transparency requirements for workplace pensions, and the increased freedom that individuals now have to choose how they access their pension savings have all contributed to a period of significant change. Amid all of these changes, the market for automatic enrolment business is still evolving as implementation moves to the 1.8 million small employers.

3.26 Against this backdrop, the Department and NEST work together on an ongoing basis to review NEST's financial position and the long-term sustainability of the current funding arrangement, including the size of its loan facility and repayment period. The Department and NEST are committed to ensuring the original objective of introducing NEST as a low-cost, quality workplace pension scheme that can be delivered at no direct cost to the taxpayer.

Appendix One

Our audit approach

1 This study looked at the implementation of the automatic enrolment programme by the Department for Work & Pensions (the Department), supported by The Pensions Regulator and the National Employment Savings Trust (NEST), and whether this is delivering value for money. We reviewed:

- progress against planned implementation;
- programme management; and
- future challenges for the roll-out of the programme.

2 Our audit approach is summarised in **Figure 18** overleaf. Our evidence base is described in Appendix Two.

Figure 18
Our audit approach

The Department's objective

Automatic enrolment aims to encourage people to save into workplace pensions, building on evidence of inertia in savings decisions. The Department intends that through automatic enrolment, an additional 9 million individuals will be newly saving and saving more into a workplace pension by 2018.

How this will be achieved

Every employer in the UK will need to assess their workforce for eligible employees. All eligible employees must then be automatically enrolled into a qualifying workplace pension scheme at a staging date set by The Pensions Regulator.

Our study

The study looks at how the Department has implemented the automatic enrolment programme and how delivery has been managed across the three entities involved (the Department, The Pensions Regulator and the National Employment Savings Trust). It also looks at future challenges for the roll-out of the programme as smaller employers begin to enrol their workers.

Our evaluative criteria

The Department has implemented the programme according to its planned timetable and to budget.

The Department has exercised effective programme management and governance across the three delivery bodies.

Future risks to roll-out are being monitored and mitigated against where appropriate.

Our evidence

(see Appendix Two for details)

We assessed performance by:

- comparing the original timetable and the revised timetable;
- assessing the validity of the main behavioural assumptions around compliance and opt-out rates; and
- reviewing the costs of the programme to date and future projected costs.

We assessed performance by:

- discussing governance arrangements with senior staff in all three bodies;
- reviewing internal audit reports and the Major Projects Authority's assessment of the programme;
- assessing The Pension Regulator's management information on compliance and enforcements; and
- reviewing documentation including The Pension Regulator's management information on compliance and enforcement.

We assessed performance by:

- interviewing external stakeholders to get their views on future challenges;
- interviewing contractors to assess their ability to deal with the scale-up of operations; and
- reviewing wider pension reforms to consider associated risks and challenges.

Our conclusions

We concluded that:

- Automatic enrolment has been successfully introduced for larger employers, and the programme has so far delivered value for money.
- The Department, The Pensions Regulator and NEST have worked well together and engaged well with other stakeholders in the development of rules and processes.
- Significant risks remain with the future roll-out of the programme. Smaller employers are likely to behave differently in response to the administrative requirements of automatic enrolment and the greater volume of small employers will impose significant pressure on operations.
- The Department needs to ensure that more widespread enrolment translates into higher retirement incomes as it tackles remaining questions around the design of automatic enrolment, wider pension reforms and market developments.

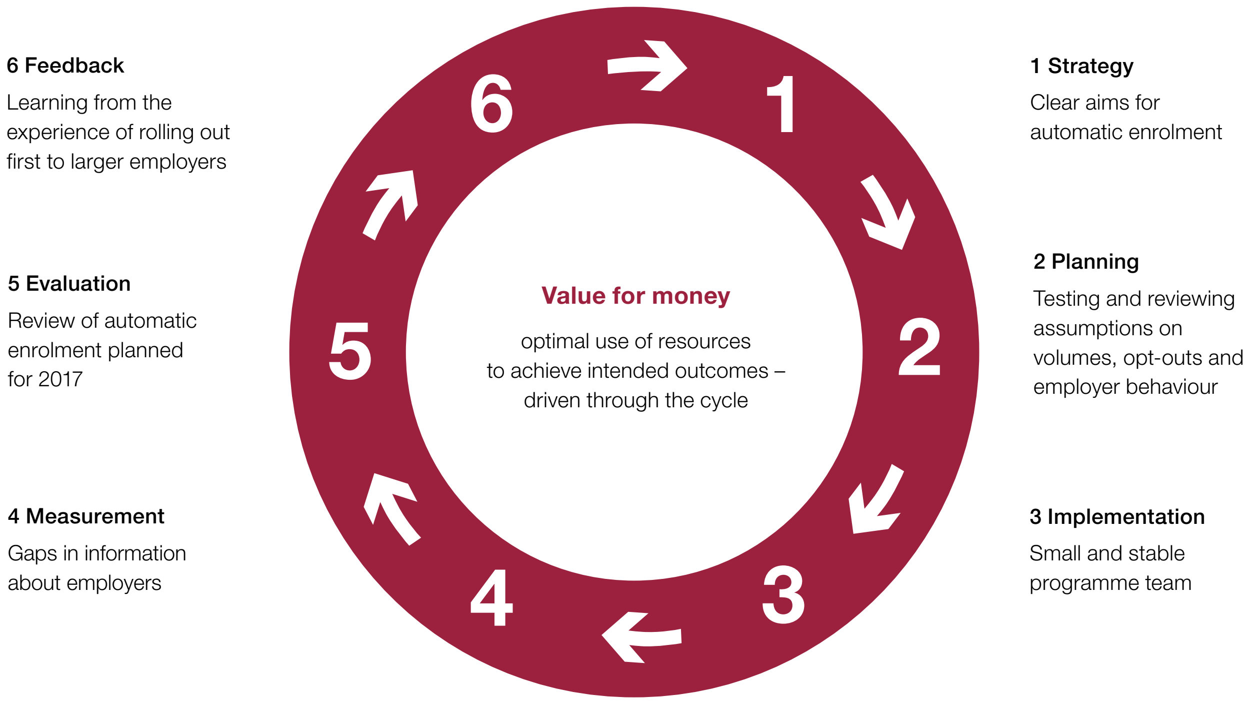
Appendix Two

Our evidence base

1 We reviewed whether the automatic enrolment programme is on track to deliver value for money after analysing and evaluating evidence collected between May and August 2015.

2 To develop evaluative criteria, we drew on our core management cycle, as well as considering our previous study on welfare reforms, which assessed the Department for Work & Pensions' (the Department's) success in implementing major welfare reforms against the core management cycle (**Figure 19**). Our audit approach is outlined in Appendix One.

Figure 19
The core management cycle



Source: National Audit Office

3 We assessed the progress against planned implementation of the programme by:

- comparing the original staging timetable and the revised timetable to understand how many employers have so far staged and how many more will need to stage;
- reviewing documentation that sets out changes to the rules and processes around automatic enrolment to understand how and why the programme has changed;
- assessing the behavioural assumptions around compliance and opt-out rates and comparing with available benchmarks (for example, Department and The Pensions Regulator assumptions/targets, attitudinal research and international experience such as the KiwiSaver scheme in New Zealand);
- comparing the 2010 and 2014 business cases to see how budgeted costs have changed; and
- reviewing the programme's annual financial reports.

4 We assessed the management and governance arrangements of the programme by:

- conducting interviews with the Department, The Pensions Regulator and National Employment Savings Trust (NEST) officials and personnel, to establish how the programme is managed and how the Department and The Pensions Regulator have worked to prevent NEST as a market participant gaining unfair advantage;
- reviewing the overall governance structure of the programme to understand the roles that different governance bodies and individuals play;
- reviewing the findings of internal audit and the Major Projects Authority on programme management and governance; and
- reviewing the evaluative framework for the programme and the Department's annual baseline evaluation reports that they have produced since 2012.

5 **We assessed the likely challenges and risks associated with the future roll-out of the programme by:**

- conducting interviews with external stakeholders to assess their views of the challenges that lie ahead for automatic enrolment. We interviewed a range of external stakeholders, who were mainly pension providers in the automatic enrolment market or trade body representatives. We also spoke to and corresponded with HM Revenue & Customs officials to understand how they had been working with The Pensions Regulator to support the automatic enrolment programme;
- conducting interviews with Department, The Pensions Regulator and NEST personnel;
- reviewing behavioural research conducted by The Pensions Regulator and the Department on the awareness and attitudes of smaller employers to automatic enrolment to understand how likely they are to be compliant with their duties;
- visits to The Pensions Regulator's and NEST's contractors to discuss their approach to operational planning and deliver;
- reviewing aspects of The Pensions Regulator modelling of the staging profile and capacity planning for compliance and enforcement activities; and
- reviewing written and oral submissions to the Work and Pensions Select Committee for its previous hearings on automatic enrolment.

Appendix Three

Major developments in pensions policy

Figure 20
Pension reforms since 2006

Pensions policy has changed significantly in the past 10 years

	2006	2007	2008	2009	2010
Strand 1: state pension and benefits		Pensions Act: plans restoring link of state pensions earnings from 2011 and phasing out related state second pension			Reduces qualifying years for full state pension to 30 years and extends entitlement to state second pensions to carers
Strand 2: encouraging saving	Lifetime and annual allowances introduced to simplify pension tax relief rules	Pensions Act: sets up Personal Accounts Delivery Authority (forerunner of National Employment Savings Trust (NEST)	Pensions Act: provides for automatic enrolment and NEST		The Consumer Financial Education Body is established, the forerunner of Money Advice Service
Strand 3: extended working lives	Employment Equality Act: regulates against age discrimination	Pensions Act: sets timetable for future rises in state pension age from 65 to 68			Start of phased increase, from 60 to 65 in state pension age for women

Source: National Audit Office analysis of announced changes to pensions policy

2011	2012	2013	2014	2015
Adopts 'triple lock' for annual increase in state pension	Government commits to introduce single-tier flat-rate state pension	Single-tier pension will be introduced in 2016-17, meaning everyone will pay the same rate of National Insurance Contributions (NICs)	Pensions Act: single-tier state pension replaces basic and additional state pensions	Pensions Freedom: radical changes to the pension saving system implemented
Sets 2012 to 2018 timetable for automatic enrolment	Automatic enrolment begins. Further reductions in annual and lifetime pension tax allowances	New objective for The Pensions Regulator to support pension funding arrangements that are sustainable	Pensions Act: New rate of NIC to allow top-up of state pension Abolishment of the requirement to purchase an annuity	Tax-free annual pension allowance reduced for those earning more than £150,000
Pensions Act: brings forward to 2020 rise in state pension age to 66 End of default retirement age			Pensions Act: provides for regular review of state pension age and brings forward rise in SPA to 67 to 2026	

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