Are we “in” yet?

A report into small business employers’ readiness for the workplace pension reforms

1912–2012
A CENTURY OF PROFESSIONALISM

CII

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Preparedness for auto-enrolment reforms

Current provision: over two-thirds of small firms (10–49 employees) offer and contribute to a workplace pension scheme, compared to just 20% of micro firms (1–9 employees). These proportions have increased discernibly for small firms but have remained static for micro ones.

Awareness: small firms have greater knowledge of the reforms, and this has increased since the Government's ad campaign; whereas for micro firms knowledge is low and unchanged since last year. There needs to be more effort to educate micro firms that the auto-enrolment reforms will apply to them and they need to prepare.

Challenges for small firms: the top challenges for both small and micro firms are an increased burden on day-to-day pension administration and having to set up a new pension scheme.

Preparation towards implementing reforms: nearly 70% of small firms have done something, up from 62% in 2012. However, for micro firms, most (65%) have not undertaken any activity, the same as last year.

For those few employers who have sought external assistance: financial advisers and providers are still the preferred choice for assistance.

Preferred sources for assistance

Advisers the preferred choice: for *choosing a pension for firms*, financial advisers remain the first choice for especially small firms, with nearly half surveyed using this option, representing over half a million businesses. A third of small employers (about 60,000 businesses) would turn to a financial adviser for *setting up and running a pension*, and this increases quite significantly for more successful, higher turnover firms.

Providers are a close second choice: over quarter of a million employers would use pension providers to choose a pension (25% selected this option). About 30% would use providers to set up and run a scheme.

High proportion of micro firms want to self-advise: nearly 30% of micro firms would not seek external assistance in preparation. Their main reasons were cost of services, a perception of sufficient knowledge within the firm, and a belief that pensions issues are irrelevant. Only a tiny proportion cited reasons related to Consultancy Charging.

A small proportion of micro firms think auto-enrolment is irrelevant to them: at best, this reflects a lack of understanding of how the reforms work, especially for younger or lower paid employees. At worst, and possibly more likely, it suggests confusion among micro firms that the reforms will not apply to them because of firm size.

Services firms want and are prepared to pay for

Main services desired: we determined that “one-off tailored advice on setting up a pension scheme”; and “ongoing tailored advice on the pension scheme” were the services firms were most likely prepared to pay for. Presentations and advice to employees were the least preferred options, but a third of firms would pay for these services as well.

Firm size a huge determinant: small employers were much more likely to want to pay for these services than micro ones, reflecting the higher number of employees they have to deal with but also their patterns of awareness of the reforms and their perception of the closeness of the staging dates.

Turnover equally important: as one would expect, firm turnover is as important a factor as firm size for this issue. £500,000+ turnover firms were up to 15% more likely to want to pay for these services, whereas less successful firms were up to 10% less likely. Financial services firms looking to target employers for advice and assistance should focus heavily on the firm turnover as an indicator when setting up their client service proposals.

Firm awareness is also critical: as is the case throughout these findings, firms that are more aware of the reforms are more likely to pay for external assistance. They have a better appreciation of the complexities and challenges in implementing these reforms.

1. The policy context: the time to act is now

From 17 September 2012, the British television-viewing public will have seen a glitzy advert featuring celebrity business leaders Theo Paphitis from *The Dragon's Den* and Karren Brady from *The Apprentice* joining other high-profile bosses in supporting the Government's new auto-enrolment policy. This advert was the flagship of an £8m media campaign. The aim? To educate workers and their bosses that over the next five years, nearly 5 million firms are to say "I'm in" to offering and contributing to a workplace pension to all their staff.[1]

So began one of the most important public policy experiments of our time: to nudge some 10 million people into long-term saving for the first time. The policy addresses the concern that half of people yet to retire are not contributing to a pension, resulting in a pension gap to the tune of nearly £320bn per year.[2] The solution is rooted in the theory that employees automatically enrolled into a workplace pension would be less likely to take steps to opt out of it.

Early research findings give cause for optimism. A report published by the Department for Work & Pensions (DWP) in August 2013 suggests that only 9% of employees of newly-staged larger firms have chosen to opt out.[3] A good start, but the coming years will be the true test.

The crucial role of small firms

> *"In 2012, small firms pulled in over a quarter of UK business turnover; and were the bread and butter to nearly a third of the private sector workforce."*

The focus of this report is the over 1.2 million employers in the "micro" (1–9 employees) and "small" (10–49 employees) categories. Despite their tiny size compared to the household-name conglomerates, their pivotal role in the wider economy should never be underestimated. They pulled in over £870bn of turnover in 2012, a quarter of that of all UK businesses; and were the bread and butter to some 7.3 million employees, or nearly a third of the private sector workforce.[4] In recent years, start-ups of this size have been the gravitas behind such major innovation landmarks as Cambridge's biotechnology hub and London's "Silicon Roundabout."

Arguably, employers at this end of the scale are one of the main reasons for auto-enrolment in the first place. With limited resources, having just a handful of workers on the payroll is hardly an encouragement to offer a workplace pension scheme. So their employees have tended to be barred from the luxury of a money-purchase scheme with matched employer contributions enjoyed by their counterparts in larger firms.

1 Bar the very lowest earners and those under 16
2 The Chartered Insurance Institute, *An age-old problem: developing solutions for funding retirement*, May 2011. This figure is based on Aviva estimates
3 DWP, *Automatic enrolment employment opt-out rates: findings of research with large employers*, Aug 2013 www.gov.uk/government/uploads/system/uploads/attachment_data/file/227039/opt-out-research-large-employers-ad_hoc.pdf
4 All stats on SME population: BIS Statistical Release, Business Population Estimates for the UK and Regions, Oct 2012 www.gov.uk/government/uploads/system/uploads/attachment_data/file/80247/bpe-2012-stats-release-4.pdf

Small firms, big challenges

Bringing these employees into the workplace pension tent will not be without its fair share of challenges. First, many of these firms do not currently have a scheme. They will face critical decisions over the next few years, least of all:

- what pension scheme will be offered
- how they will start up and administer the scheme; and
- how they will deal with their employees' diverse set of circumstances (such as earnings bands or full-time/part-time status).

A second set of issues relates to the employees themselves, so that they feel confident in their own minds of what is being done for them. For the majority of firms that do not have pension trustee arrangements, these issues will confront individual employees, many of whom will not have had a pension before, and certainly not a workplace defined contribution scheme. Their own information needs will be numerous including: whether they should participate in the scheme, the proportion of their earnings they should be investing, their perception of financial risk, where the funds should be invested, and of course the implications of changing jobs. So ensuring firms get appropriate assistance will be important in increasing participation and contribution rates.

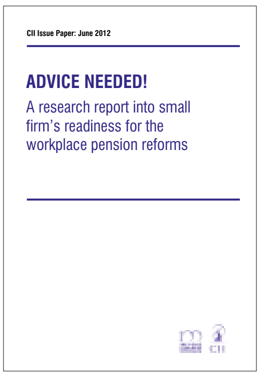
> *"Getting these decisions wrong will be costly, not just to employers and employees, but also the wider economy. It would also taint that trusted employee-employer relationship on communicating the benefits of saving."*

Getting these decisions wrong will be costly. Not just to the employers and employees but also the wider economy. It would also taint that trusted relationship that employers have with their workers on communicating the benefits of saving.

This was the subject of a report we published in June 2012 to understand the extent to which firms of this size are preparing for the reforms.[5] Our results then suggested that only a minority of small firms are ready for the reforms with only a small proportion having made plans and the majority unaware of the Government's proposals in this area. How much has this changed since then?

The micro-employer question

Despite the workplace pension reforms starting to enter force last October, a debate over its universality still rages on. One is over whether micro firms with fewer than five employees should be included in auto-enrolment. The Government has clearly said, and the advice and guidance from the DWP is unequivocal, that these firms are indeed in the scope.[6]


CII Issue Paper: June 2012

ADVICE NEEDED!

A research report into small firm's readiness for the workplace pension reforms

Some recent developments, however, have not helped with this message. A key episode here was the 2011 recommendation by venture capitalist Adrian Beecroft that employers of fewer than five employees should be exempt from the reforms.[7] He argued that including micro-employers constitute over 45% of the total implementation costs (though these might be significantly reduced by NEST), yet those firms account for only 5% of all private sector employees.

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5 The Chartered Insurance Institute, Advice needed! *A research report into small firms' readiness for the workplace pension reforms*. June 2012 www.cii.co.uk/media/2276590/issue_paper_-_small_business_response_to_auto-enrolment__16_pages_final_.pdf

6 See for example The Pensions Regulator website, "Start your automatic enrolment plan today" (accessed Aug 2013)

7 Adrian Beecroft, *Report on Employment Law*, 24 Oct 2011

> *Whether or not this lack of certainty is grounded, the Government must do as much as it can to clarify that auto-enrolment applies to **all** employers.*

Pensions Minister Steve Webb said that he is fighting to keep micro firms in, citing that there is cross-party support for this, and told New Model Adviser in 2012 that "workers in those firms have as much right to retire not in penury as anyone else."[8] While the Government's approach in pushing back the staging date for firms with fewer than 30 employees may mitigate some of the costs, it did not dispel any uncertainty.

And this uncertainty will be compounded in the context of the Pensions Bill and the debate over its Clause 34.[9] In a convoluted and indirect sort of way, this passage leaves open the possibility that micro firms or other employer groups might slip out of the reforms by a future Pensions Minister: "The Secretary of State may by regulations provide for exceptions to the employer duties; and an exception may in particular – (a) turn an employer duty into a power; (b) be framed by reference to a description of a worker, particular circumstances or in some other way."[10]

Some industry and political commentators have read this as a back-door approach to allowing the Government to implement the Beecroft recommendation under the direction of any new (and less outspoken) pensions minister.[11] Others will counter that it simply provides the Government the flexibility to respond to a changing economic and business environment.[12] Although it remains unlikely even now that the Beecroft recommendation will ever see the light of day, it might place a seed of doubt in the minds of employers preparing for the reforms.

Whether or not this lack of certainty is grounded, the Government must do as much as it can to clarify that auto-enrolment applies to all employers, and that they should start preparing as soon as possible. Perhaps a more targeted media campaign for micro employers? Surely such an "Are we in yet?" campaign would not only dispel any misplaced doubts, it would also underscore the urgency of taking prompt action.

The importance of financial advisers and providers

Another major finding from our report was that financial services firms, and in particular financial advisers and pension providers, could play a vital role in helping firms confront the challenges posed by these reforms.

Out of all the firms we surveyed, financial advisers and pension providers were the most popular potential source of assistance on auto-enrolment above accountants and benefit consultants. There also appeared to be a clear willingness to pay for advice for certain services. Finally, those respondents who said they understood the changes were more likely to choose these sources of external advice for help with implementation.

Since our survey last year, two important developments have happened. The roll-out and its associated ad campaign was the first one. This raised the profile of the issue, so awareness should have increased since our pre-media campaign survey. Therefore, more firms should be willing to see a financial adviser or pension provider.

8 Quoted in "Beecroft report: cut micro employers from auto-enrolment plans," by Daniel Grote, *New Model Adviser*, 22 May 2012.

9 The Pensions Bill introduces into the Pensions Act 2008 auto-enrolment provisions among other things.

10 Pensions Bill, Clause 34 www.publications.parliament.uk/pa/bills/cbill/2013-2014/0006/2014006.pdf

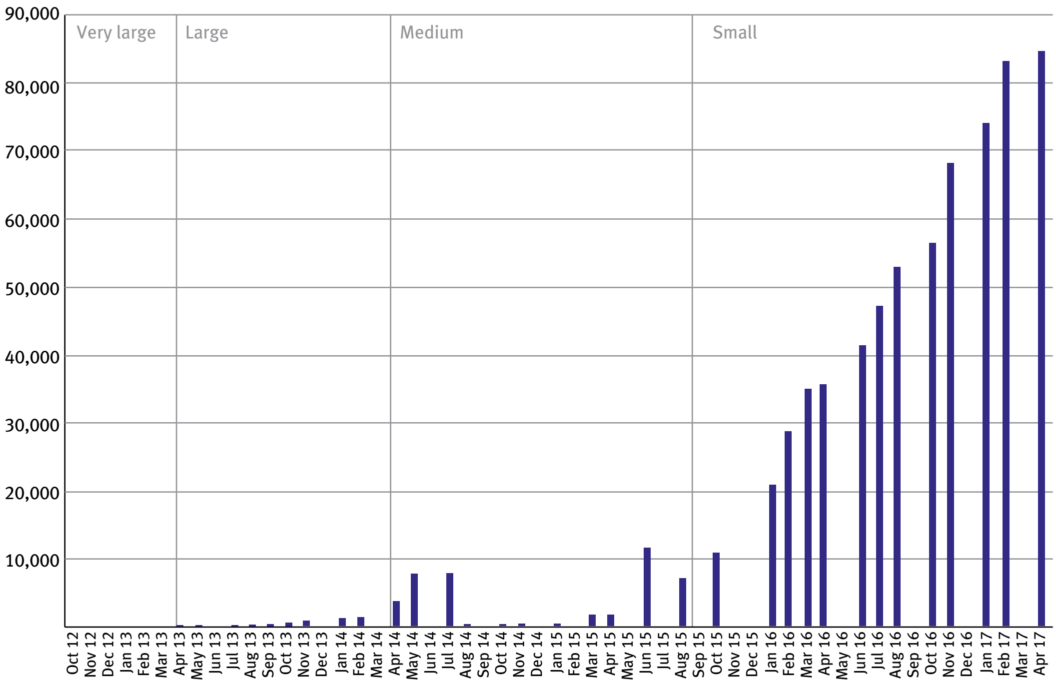
11 See for example, "Could small firms be excluded from auto-enrolment?" by Tom Selby, *Moneymarketing*, 2 July 2013; "Government to get power to exempt some workers from AE," by Jack Jones, Professional Pensions, 2 July 2013; and "The Pensions Bill's Beecroft Clause," by Craig Berry, Touchstone (Trade Union Congress blog), 14 June 2013.

12 See for example, response by Steve Webb, Minister of State (Pensions), in Pensions Bill Committee Debate, 9 July 2013, *Hansard*, c.338. www.publications.parliament.uk/pa/cm201314/cmpublic/pensions/130709/pm/130709s01.htm#13070974000011

However, this might be affected by the second development. On 16 May, the DWP announced that it would ban Consultancy Charging, the process by which employers can allocate the advice fee to employees' pension pots. The Government's decision followed intense debate pitting prohibitionists concerned about employees feeling disempowered over charges and opting out of the reforms; against advocates worried that small businesses would avoid professional advice altogether because they cannot afford it without sharing the cost with workers.

Those that do seek external advice will have yet another issue to confront: the availability of professional financial advice. As the DWP chart reproduced in Figure 1 below illustrates, as small businesses get closer to their staging date, more firms will be dealing with these issues. So the demand for advice will grow significantly, which will no doubt strain supply.

Figure 1: Number of employers joining auto-enrolment at each staging date (DWP diagram)[13]



Clearly then, a key message must be that while 2015–16 might seem a long way off, firms need to start thinking now about these issues. All these issues confront the market as we undertake this second survey of small firms, and this paper seeks to shed some light on them.

13 DWP, *Supporting automatic enrolment: The Government's response to the call for evidence on the impact of the annual contribution limit and transfer restrictions on NEST*, July 2013, p.10, Chart 2.

2. Methodology

We commissioned the polling agency Populus to conduct on-line surveys of about 500 small business employers in 2012 and 2013.[14] Within the universe of these firms, 85% fall within the "micro" category (1–9 employees) and 15% in the "small" category (10–49 employees). This means that a proportionate sample of 500 firms would yield a very low number of small firms creating a possible bias in results.

For this reason, Populus set quotas in both years to ensure that 60% of the samples fell in the 1–9 employee category (rather than 85%) and 40% amongst 10–49 employees (rather than 15%). The results were then weighted back to reflect the universe of firms enabling more robust results from which generalisations can still be made. Populus used an online screening method to identify business leaders with knowledge of their firm's pension provision. The table below outlines the sample size and relative margin of error at the 95% confidence interval. Where results do not sum to 100%, this may be due to rounding, multiple responses, or the exclusion of 'don't know' categories.

Table 1: Summary statistics, 2012 and 2013 surveys

Business size	Universe of employers*				Survey samples			
	Number of firms		Employees (thousands)		Unweighted		Weighted	
	2012	2013	2012	2013	2012: 507	2013: 503	2012: 507	2013: 503
Micro (1–9 employees)	968,545	1,022,695	3,651	3,471	303	302	431	428
Small (10–49 employees)	173,405	177,950	3,469	3,848	204	201	76	75
Margin of error at 95% confidence interval							±4%	±4%

* Source: BIS Statistical Releases, "Business Population Estimates for the UK and Regions," 12 Oct 2011; 17 Oct 2012.

In drafting question wording in both years, we were mindful of the DWP's research from 2010[15] which assessed firms' readiness for the workplace pension reforms and included a couple of questions related to financial advice. For the 2013 survey, where relevant, we have replicated the question wording so that we are able to make comparisons to those reports to identify trends over time. We have also used newer survey research, such as NEST's Insight Research on auto-enrolment published in January 2013.[16] Moreover, we have added a few questions of our own, enabling us to go into more depth about firms' willingness to pay for advice and what external services they require to implement the reforms.

The latest survey fieldwork was conducted on 12–18 June 2013, nine months after the start of the Government's media campaign, eight months after the start of auto-enrolment, and one month after the DWP's announcement on consultancy charging. It was conducted on-line, to micro and small business across the UK. Respondents were screened to ensure they had an excellent or good understanding of the pension provision within their business.

14 Regarding our 2012 survey, see CII report, *Advice needed! A research report into small firms' readiness for the workplace pension reforms* (note 5 above).

15 H. Bewley & J. Forth for DWP, Employers' attitudes and likely reactions to the workplace pension reforms 2009, 2010. www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/employers-reactions-reforms-2009-DWP,PDF.pdf. See also S. Hall for DWP, Preparing for pensions reform: the information needs of small and micro employers at auto-enrolment, 2010. www.gov.uk/government/uploads/system/uploads/attachment_data/file/214447/rrep676.pdf

16 *NEST Insight: Taking the Temperature of Automatic Enrolment*, Jan 2013 www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/nest-insight-2013,PDF.pdf

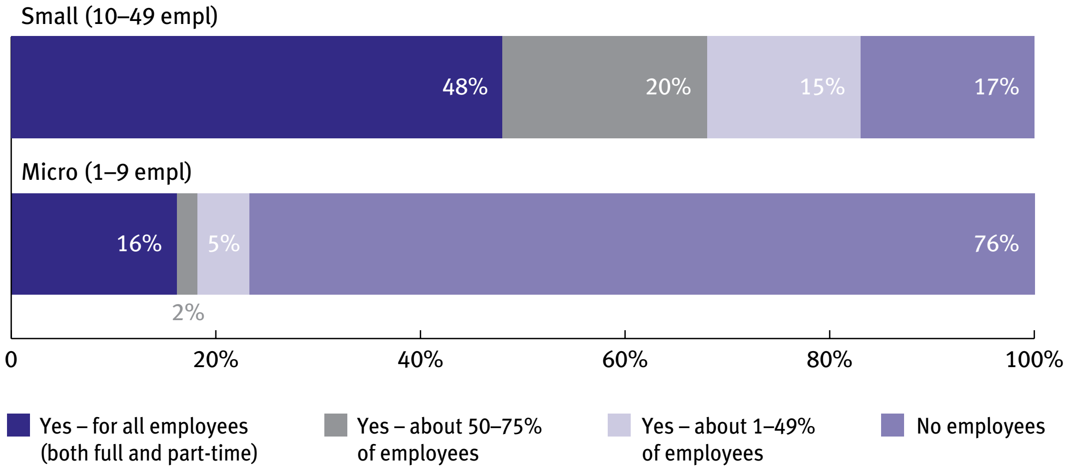
3. Preparedness for the workplace pension reforms

Current provision

Our research shows that 79% of all small business employers do not currently offer and contribute to a workplace pension for all their employees. This represents about a million firms employing nearly 6 million people. Only 21% of employers (250,000 firms) have such a scheme in place for all staff, and another 12% offer one for some of their staff. The figures were the same as 2012, with only 5–6% differences year-on-year. Figure 2 below reveals that this overall figure masks significant differences in preparation between micro (1–9 employees) and small (10–49 employees) firms. While just 16% of micro firms offer and contribute to a workplace pension to all their employees, nearly half (48%) of small firms do this.

Figure 2: Proportion of micro and small firms who say they currently offer and contribute to an occupational pension scheme

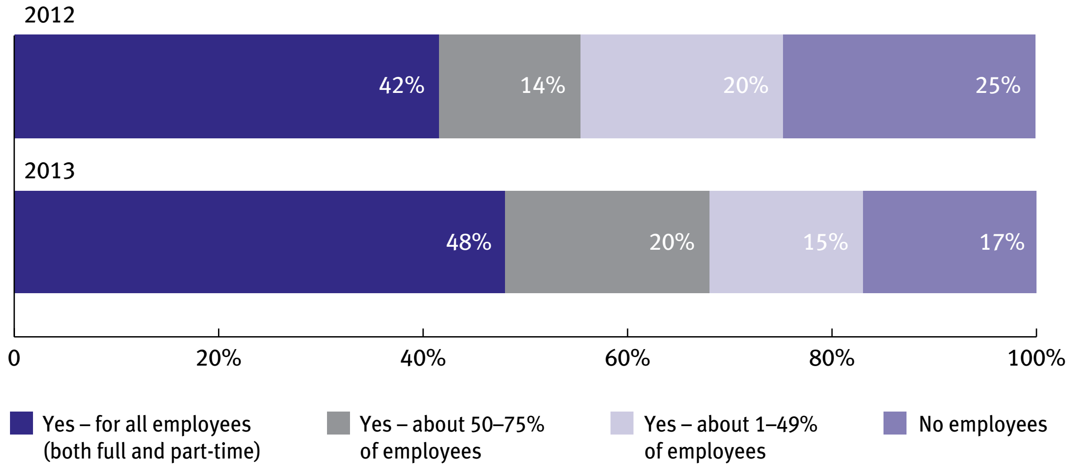
Do you currently provide a workplace pension scheme for your employees to which you offer an employer contribution? (Base: 503)



When compared with last year (Figure 3), the picture looks more optimistic, especially for the larger businesses. Whereas 42% of these small firms said they offered and contributed to a pension to all employees last year, nearly half do so now. Similarly at the other end of the scale, the proportion not offering any pension scheme to their employees has dropped from a quarter in 2012 to about 15% now.

Figure 3: Small firms (10–49 employees) who say they offer and contribute to an occupational pension scheme, 2012 and 2013

Do you currently provide a workplace pension scheme for your employees to which you offer an employer contribution? (Weighted bases: 2012: 76; 2013: 75)



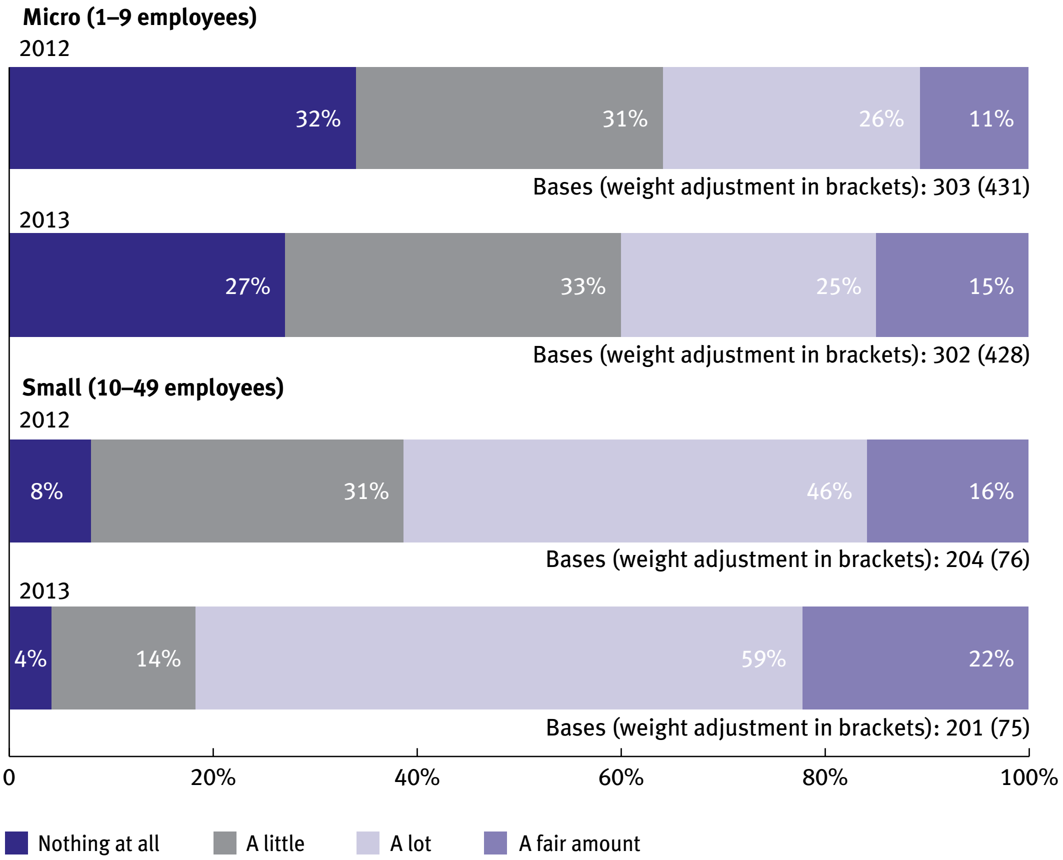
Awareness

One of the key findings of our 2012 survey was that awareness was critical to preparing for the reforms. Our research revealed that those who knew more about the reforms were more likely to put a plan in place and obtain advice about preparing. This made sense because knowledge meant appreciation of the complexities involved and the time available to surmount them. So our message was that more awareness and education was necessary among especially micro and small firms. The Government's £8.1m media campaign that began last Autumn aimed to address this.

Our 2013 survey conducted in June 2013, nine months after this campaign reveals that while small firms (10–49 employees) seem to have picked up the messages, more work is needed for smaller micro firms. Figure 4 opposite shows that the splits between small firms' awareness levels have changed noticeably: only a fifth of small firms say they know a little or nothing about the reforms this year, about half of last year's proportion. On the other hand, the proportion of micro employers who say they know a little or nothing about the reforms has remained static: a hardly discernible 3% decrease to 60% this year. It may reflect a perception that having just nine or fewer employees makes them exempt from the auto-enrolment changes.

Figure 4: Knowledge of workplace pension reforms by firm size, 2012 and 2013

How much do you know about the reforms to workplace pensions, requiring all firms to auto-enrol employees into a pension scheme by a certain date?



It also reflects research by NEST in early 2013 that found that firms closer to their staging date have a better understanding of their new duties.[17] A focused communications and awareness campaign on firms of this size may be worthwhile, reminding them that they will indeed be caught by the changes and they should begin efforts well ahead of their staging date.

Challenges in implementing: what concerns small business employers

There has been much speculation about the challenges faced by small business employers in implementing the auto-enrolment reforms. Research by NEST in early 2013 explored the main operational challenges that concern employers between 50 and 5,000+ employees, and found that the top three concerns for the smallest category (50–99 employees) were:

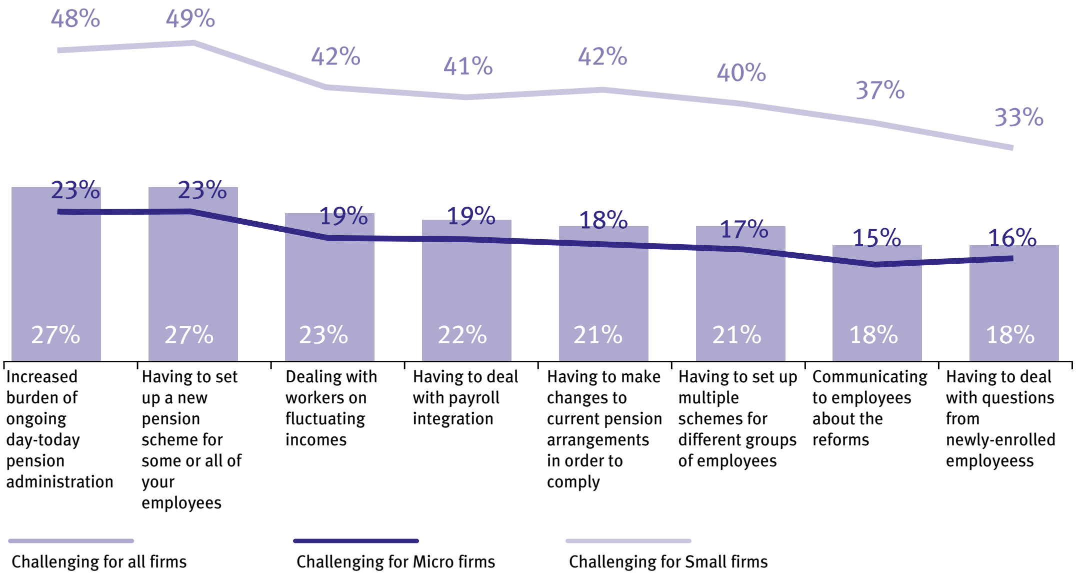
- increased burden of ongoing day-to-day pension-related administration;
- communicating to workers about reforms; and
- having to set up a new pension scheme for some or all of workers.

17 NEST Insight report (note 16 above), pp.42-45.

For employers of less than 50 staff, our 2013 survey exactly replicated these challenges, and two out of these three challenges emerged as the top issues (see Figure 5 below). It should be noted that for micro firms, the percentages giving any response were quite low compared to small firms due to large proportions responding that the challenges were "not relevant". Again this reflects those firms' limited awareness of the reforms, possibly combined with a belief that auto-enrolment will not apply to them. Nevertheless, the relative importance assigned to each challenge was largely similar (note how the slopes of the two line charts in Figure 5 are almost proportionate).

Figure 5: Main operational auto-enrolment challenges for small business employers, 2013

What would you say are the main operational challenges you face in implementing these workplace pension reforms? (Base: 503 respondents)

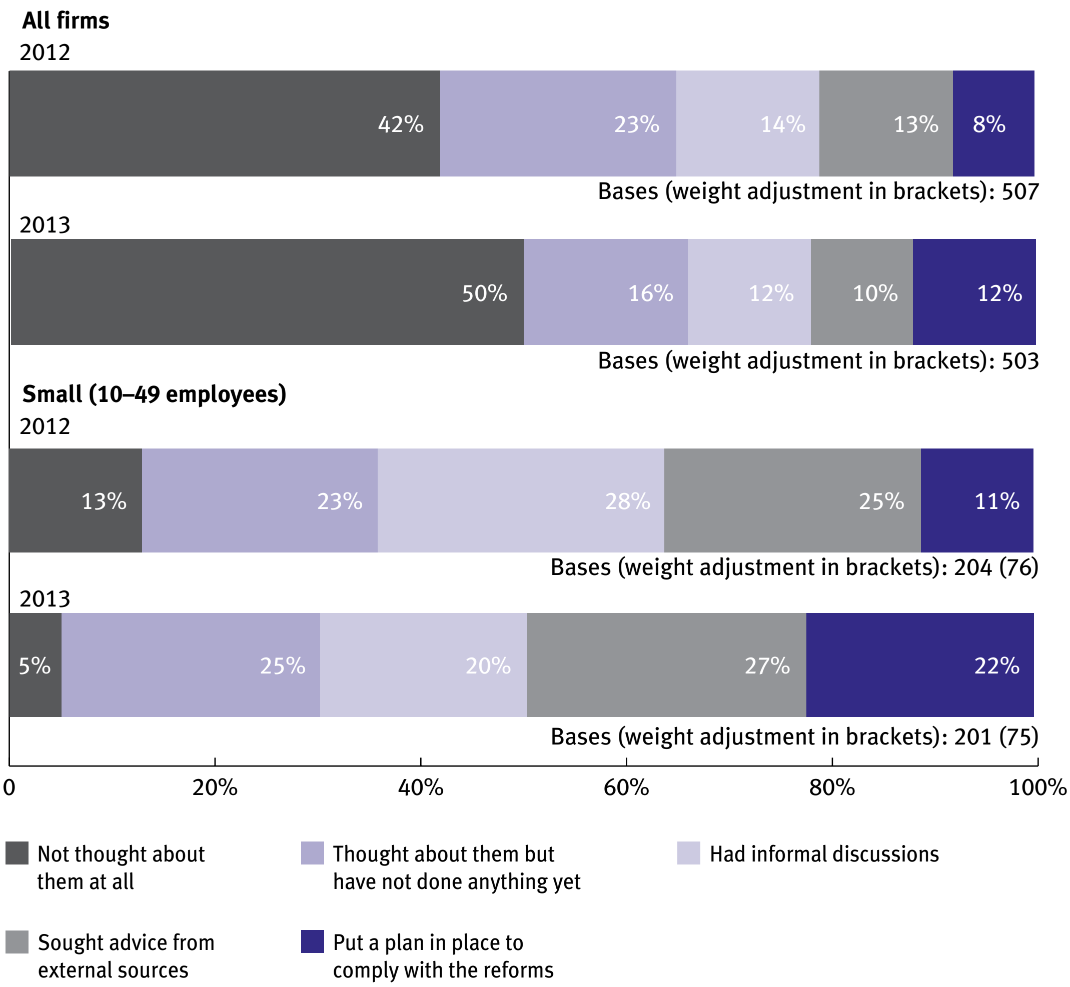


When analysed against knowledge of the reforms rather than size of firm, those that say they know "a fair amount" or "a great deal" about the reforms also prioritised these top three challenges. This suggests that setting up a pension for the first time and running it on a day-to-day basis will be the main hurdles. So how will they confront them?

Actions taken by small business employers so far

Looking into more detail on the various steps taken, there is a huge difference between small and micro employers. Across all micro and small firms between 2012 and 2013, Figure 6 overleaf shows that there has been virtually the same split between firms saying they have done something (either put a plan in place, sought advice, or even had informal discussions) as those who say they have not. The splits are still 35% and 65% respectively. This is mainly due to micro firms that constitute the vast majority of the firms surveyed. As with the overall figure, the split between those who have done something and those who have not is unchanged since 2012.

Figure 6: Preparation for auto-enrolment reforms by firms, 2012 and 2013
To what extent have you prepared for these workplace pensions reforms?



Yet again, when analysed by number of employees, the larger firms have made some progress. The proportion of 10–49 employers who have done something has increased from 62% in 2012 to nearly 70% in 2013. Nearly a quarter of these firms 22% have actually put a plan in place for implementing the reforms, twice the proportion from the previous year.

There is clearly still a significant need for firms in this size category to start preparing for the reforms. We wrote last year that there was still much work to be done to make the provision of workplace pensions universal across the UK economy. It is now one year later and not a huge change has taken place. Micro employers especially need to take notice that the changes will apply to them in just four years' time, and they will have one of the greatest challenges of dealing with workplace pension issues that they have never had to consider before.

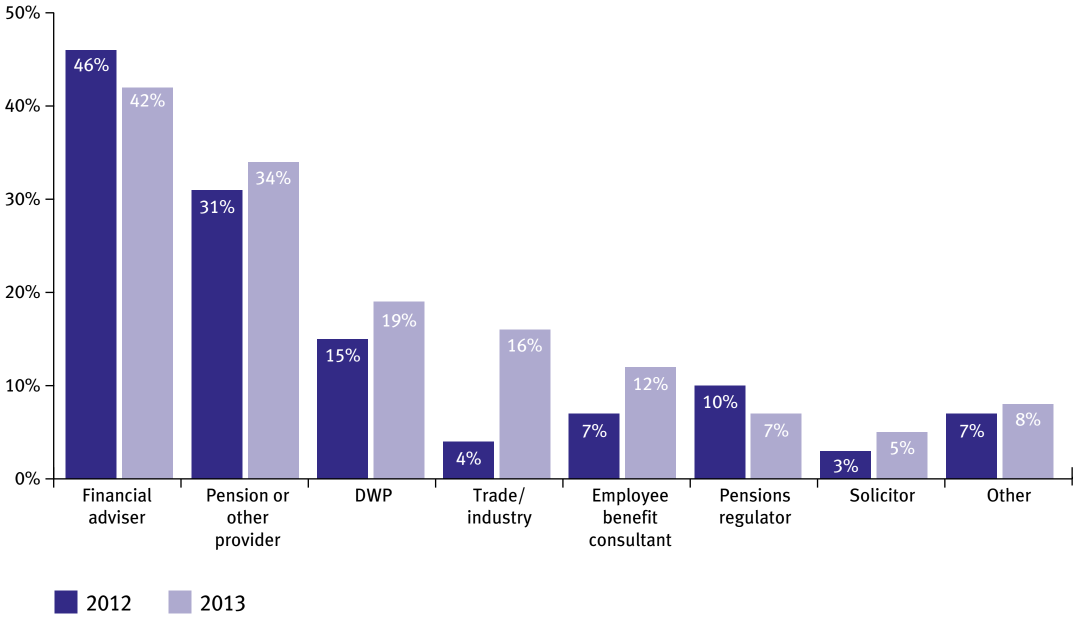
So clearly the Government's media campaign has made a difference for some employers, namely the 10–49 employees. The message, as was the case last year, is that more work is needed for those micro employers who still need to recognise that the changes will apply to them in just four years' time.

Sources of external advice

Among those firms who have sought advice from external sources, we asked what sources they used. The results are shown in Figure 7 below. Given the tiny proportions of firms that say they have done something, the weighted bases for this question will obviously be very low. Nevertheless, financial advisers remain their favourite choice, with 42% saying they had seen one in relation to auto-enrolment advice. There was a slight (and indiscernible given the sample size) decrease from last year. Providers (either pension or other financial institution such as banks) were the second choice, albeit with a slight increase.

Figure 7: Sources of external advice among those who have sought assistance, 2012 and 2013

You answered that you have sought advice from external sources about your workplace pension provision. Which of the following external sources have you used? (Warning: weighted bases are very low: 2012 52; 2013 48)



Key take-aways: preparedness for auto-enrolment reforms

Current provision: over two-thirds of small firms (10–49 employees) offer and contribute to a workplace pension scheme, compared to just 20% of micro firms. These proportions have increased discernibly for small firms but have remained static for micro ones.

Awareness: small firms (10–49 employees) have greater knowledge of the reforms, and this has increased since the Government's ad campaign; however, knowledge among micro firms is low and this has remained static since last year. There needs to be more effort to educate micro firms that the auto-enrolment reforms will apply to them and they need to prepare.

Challenges for small firms: the top challenges for both small and micro firms are an increased burden on day-to-day pension administration and having to set up a new pension scheme.

Preparation towards implementing reforms: nearly 70% of small firms have done something, up from 62% in 2012. For micro firms, most (65%) have not undertaken any activity, the same as last year. Progress is clearly been made in this category, but micro firms need coaxing. Financial advisers and providers are still the preferred choice for assistance.

4. Sources of assistance

As with last year, all the firms in our sample (including those who have not sought advice) were asked what source of advice they would likely use to both choose a pension in line with the reforms, and also to set up and run a pension scheme.

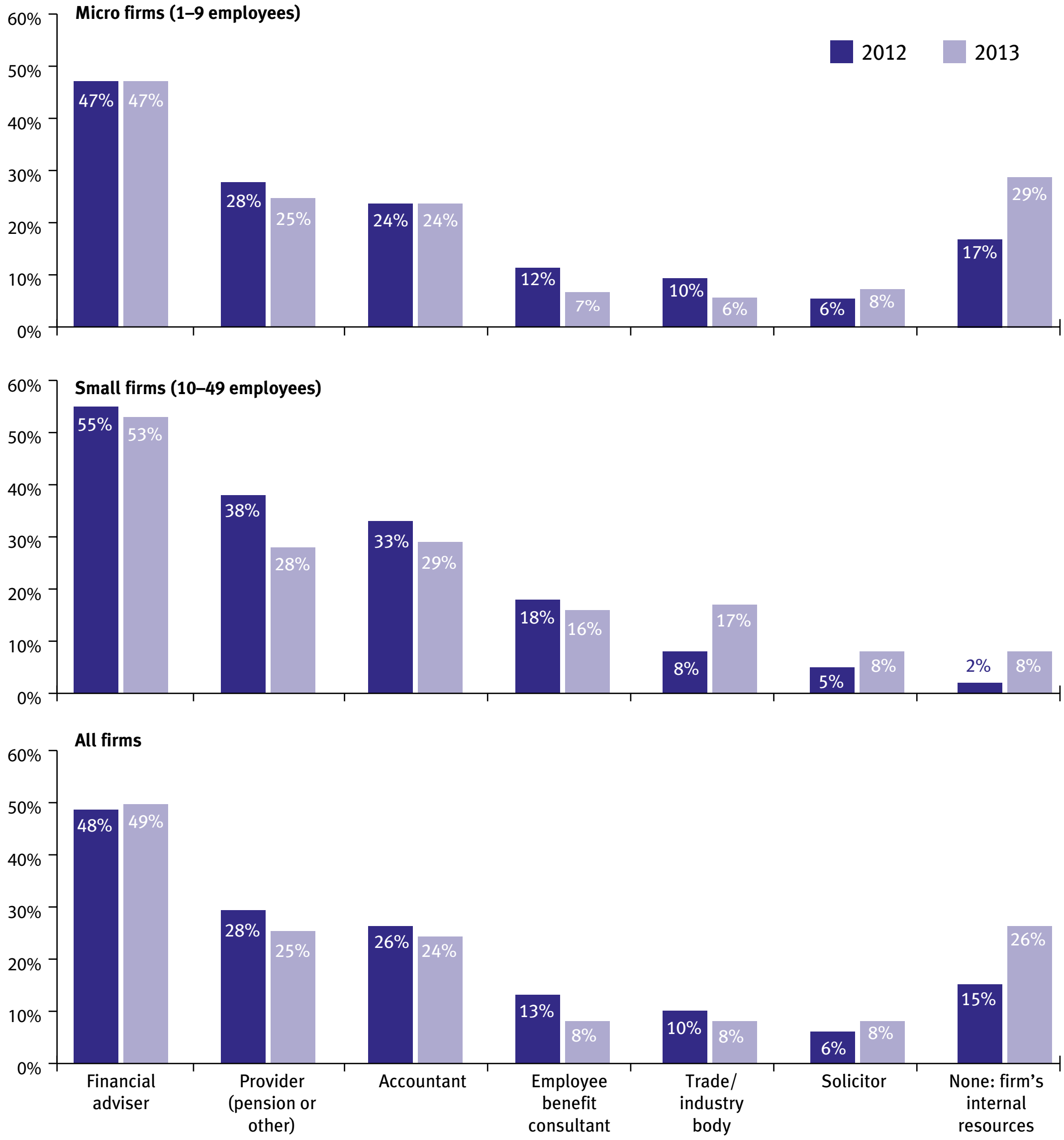
Choosing a scheme

Financial advisers remain the preferred source of assistance across the entire sample, and by a considerable margin. Figure 8 below shows that nearly half (49%) of respondents said they would seek assistance from this source. Pension providers came a second choice at 25% overall, followed by accountants. This means over half a million (565,000) micro and small businesses would seek assistance from a financial adviser, and over quarter of a million (about 300,000) would use a pension provider. As one would expect, turnover would affect decisions strongly.

It should be noted that we changed the choices in the 2013 survey to reflect the new financial advice regulatory environment, offering respondents the choice between independent, restricted and Chartered financial advisers. Independent status was by far the preferred choice.

Figure 8: Sources of advice for choosing a pension scheme, 2012 and 2013

Which TWO of the following are you most likely to use as sources of external advice when choosing a pension for the employees in your firm? (For weighted bases, see Table 1, p.9)



4. Sources of assistance

A quarter of all firms, including nearly 30% of micro firms, said they would rather use their own internal resources. This is surprising considering the very low levels of pension knowledge among firms of this size. Our 2013 survey included a new question asking why respondents took this choice, and the top three reasons among the 125 micro firms that responded this way were:[18]

- the cost of external services to the firm (32%);
- sufficient knowledge of pensions within the firm (28%); and
- perception that employee pensions are irrelevant to firms of that size (23%).

This third category confirms the observation cited above that there are many leaders of micro firms who do not believe the auto-enrolment reforms will apply to these firms. There could be two explanations for this. First, some of these respondents may have believed that their employees are not eligible for the reforms due to earnings level, age or residence. This would reflect a lack of understanding of the auto-enrolment "non-eligible" versus "non-entitled" workers criteria. For example, employees over age 16 paid in the UK would still be entitled to opt in to a pension scheme on request. If these employees did request this and they received from their employer more than the lower qualifying earnings level (currently £5,668 annually or just £109 per week), the employer would be obliged to contribute as well.

The second and probably more likely explanation is more worrying: the belief that micro firms are not caught by the changes. As discussed in the context chapter above, there seems to be a significant amount of uncertainty and confusion in this group, likely stemming from policy recommendations made two years ago that the Government has clearly chosen not to implement; exacerbated by people reading too much into Clause 34 of the Pensions Bill which is currently being debated. The Government needs to dispel any uncertainty with a more pronounced and directed media campaign.

Another observation from these findings relates to the DWP's announcement on Consultancy Charging. An infinitesimal, and therefore indiscernible, proportion (2%) chose "not being able to share the costs between employer and employee" or "regulatory restrictions" as the reasons why they are not opting for external advice. This refutes the widely held belief that banning Consultancy Charging has discouraged small firms from using external assistance, especially financial advisers. Note that the fieldwork for this survey was conducted over a month after that DWP announcement, and there was a lot of media coverage on the issue at the time. A much larger proportion (16%) said they did not know why they chose this option.

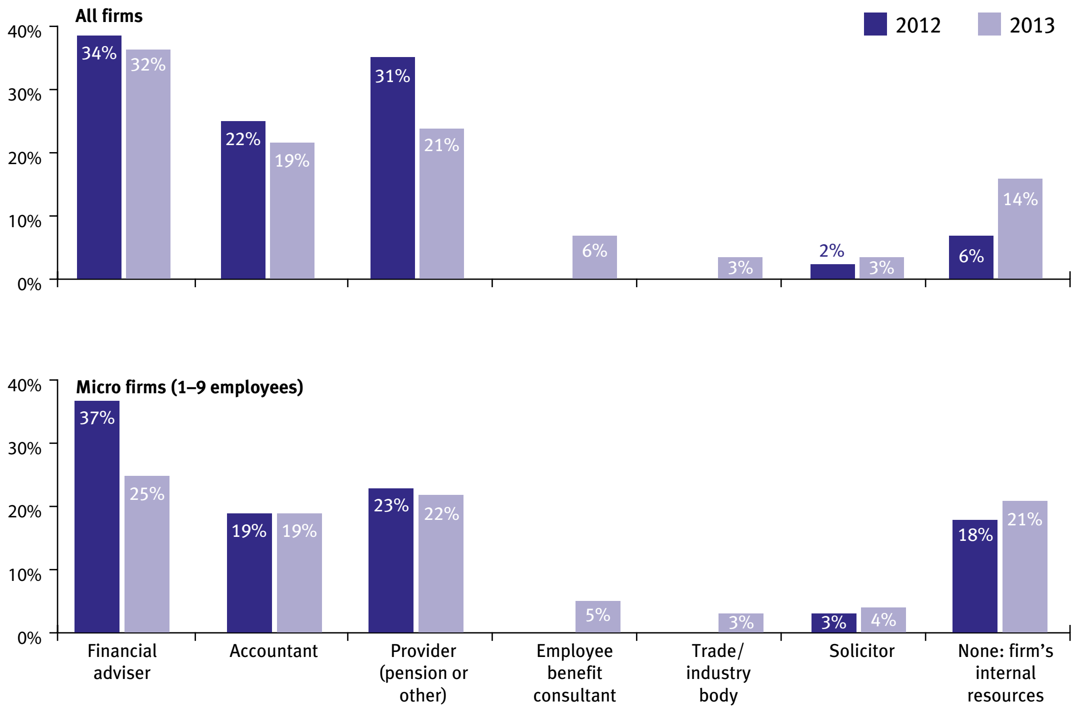
Setting up and running a pension

We repeated the same questions again for setting up and running a pension scheme, as we had done in 2012. For small firms, the results were largely similar to the choosing a pension in that financial advisers were the most popular choice (see Figure 9), and in fact the gap between preference towards advisers and providers widened from 3% in 2012 to 11% in 2013. However, the reverse happened for micro firms: the adviser-provider preference gap narrowed significantly from 14% in 2012 to virtual parity (3% difference) this year.

18 Of the weighted base of 75 small firms (10-49 employees) that were asked this question, only 6 (16 un-weighted) said they would use their internal resources. This is too small a group to analyse with any statistical confidence.

Figure 9: Sources of advice for setting up and running a pension, 2012 and 2013

Which ONE of the following sources would you turn to for assistance in setting up and running your workplace pension scheme? (For weighted bases, see Table 1, p.9)



This is also an area where the self-service option of relying on internal resources has become more significant this year. For micro firms, it was one of the top choices, with 21% taking this option, and even among larger firms, 14% or 10 firms chose it. Again, we posed a new question to understand the reasons for this choice. Among the 91 micro firms selecting this option, again the top three choices were:

- cost of the services to the firm (39%)
- sufficient knowledge within the firm (31%)
- perceived relevance to micro firms (22%)

Unlike choosing a pension which may be perceived by many firms as a more important activity that could also take place more on a one-off basis, setting up and running a scheme might seem a more elaborate option undertaken by larger firms with higher turnover. Not surprisingly, firms with turnover of up to £25,000 were 15% *more* likely to choose the self-service option. By contrast, firms with turnover of £500,000+ were 10% *less* likely to self-advise, 8% *more* likely to use a financial adviser, and 5% *more* likely to use a provider.

This higher take-up of the self-service option is therefore to be expected considering the costs involved, especially for micro firms that have just a few employees. We will examine what services firms are prepared to pay for below, but it is encouraging to see that for those firms who are considering this activity more closely, financial advisers and providers are still ranking strongly among the choices of possible external sources of help.

Key take-aways: preferred sources for assistance

Advisers the preferred choice: for choosing a pension for firms, financial advisers remain the first choice for micro and especially small firms, with nearly half surveyed using this option representing over half a million employers. 32% of small employers representing nearly 60,000 businesses would turn to a financial adviser for setting up and running a pension as well, and this increases quite significantly for more successful firms.

Providers are a close second choice: over quarter of a million employers would use pension providers to choose a pension (25% chose this option representing about 290,000 firms). About 30% would use providers to set up and run a scheme as well.

Nearly a third of micro firms want to self-advise: about 30% of micro firms would not seek external assistance in preparation, and the main reasons cited were: cost of services, a perception of sufficient knowledge within the firm, and a belief that pensions issues are irrelevant. Only a small proportion cited reasons related to consultancy charging.

A proportion of micro employers think that auto-enrolment is irrelevant to them: this finding reflects at best, a lack of understanding of how the reforms work, especially for younger or lower paid employees. At worst, and possibly more likely, it suggests a confusion among micro firms that the reforms will not apply to them because of firm size. This needs to be cleared up by the Government with a decisive media campaign.

About one in ten (9%) of micro employers think they have sufficient knowledge in house: this is even more disconcerting considering the amount of knowledge micro firms have revealed they have.

5. External services sought by small business employers

Having established that financial advisers and providers are high on the list of external sources of assistance, we wanted to understand precisely what services small and micro firms were most likely to need. Although a large proportion of especially micro firms say they would undertake many of these services internally, larger businesses are prepared to use external services and the financial services sector would find useful an appreciation of services desired. To tackle this, we first needed to understand what services those firms want; and then what they are likely to want to pay for.

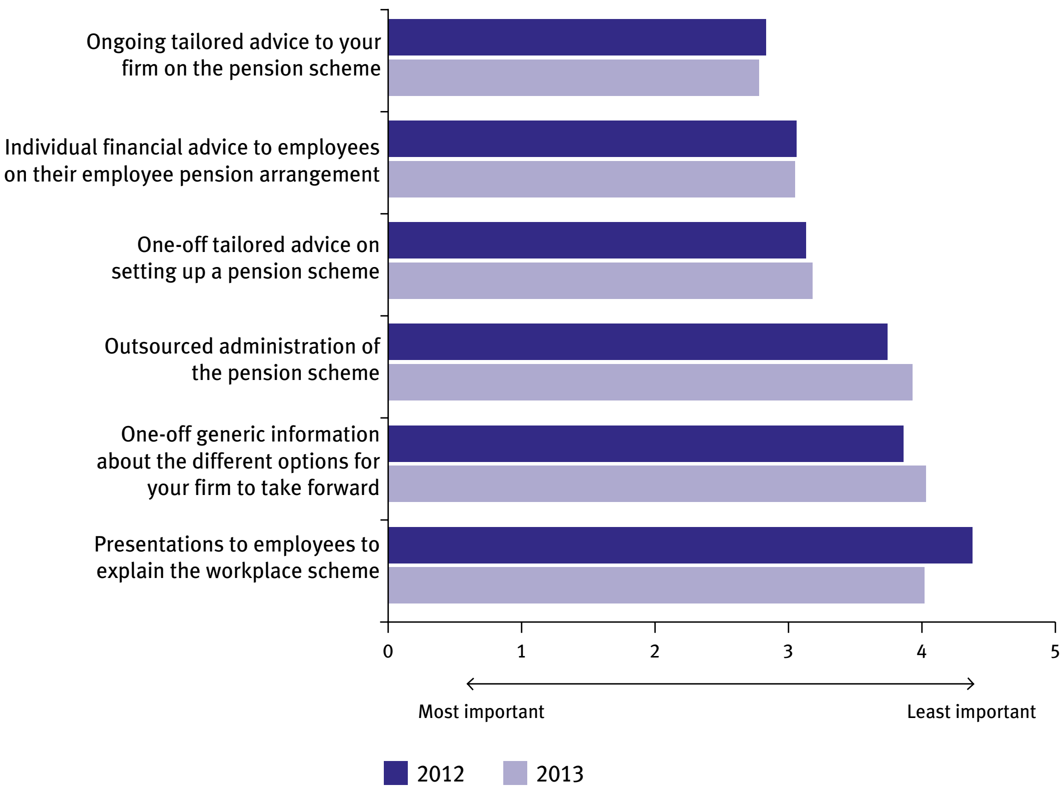
What services small business employers would want

The 2012 survey asked respondents to rank on a scale of one to five which services they would be looking for, and we repeated this question verbatim this year. Analysis of mean rankings is set out in Figure 10 below. The results were largely similar to last year. The top choices are:

- ongoing tailored advice to the firm;
- individual financial advice to employees on their pension arrangement; and
- one-off tailored advice were the top choices for all firms.

Figure 10: Services sought by all micro and small firms, 2012 and 2013

If you were to seek external advice in establishing a workplace pension scheme, what services would you be looking for this external support to offer? (All firms, bases: 2012, 505; 2013, 503).



There was little variation by size of firm: the only noticeable difference was that small firms had slightly more preference towards one-off tailored advice on setting up the pension, which is not surprising given the cost of paying an adviser to talk to each employee in the larger payroll.

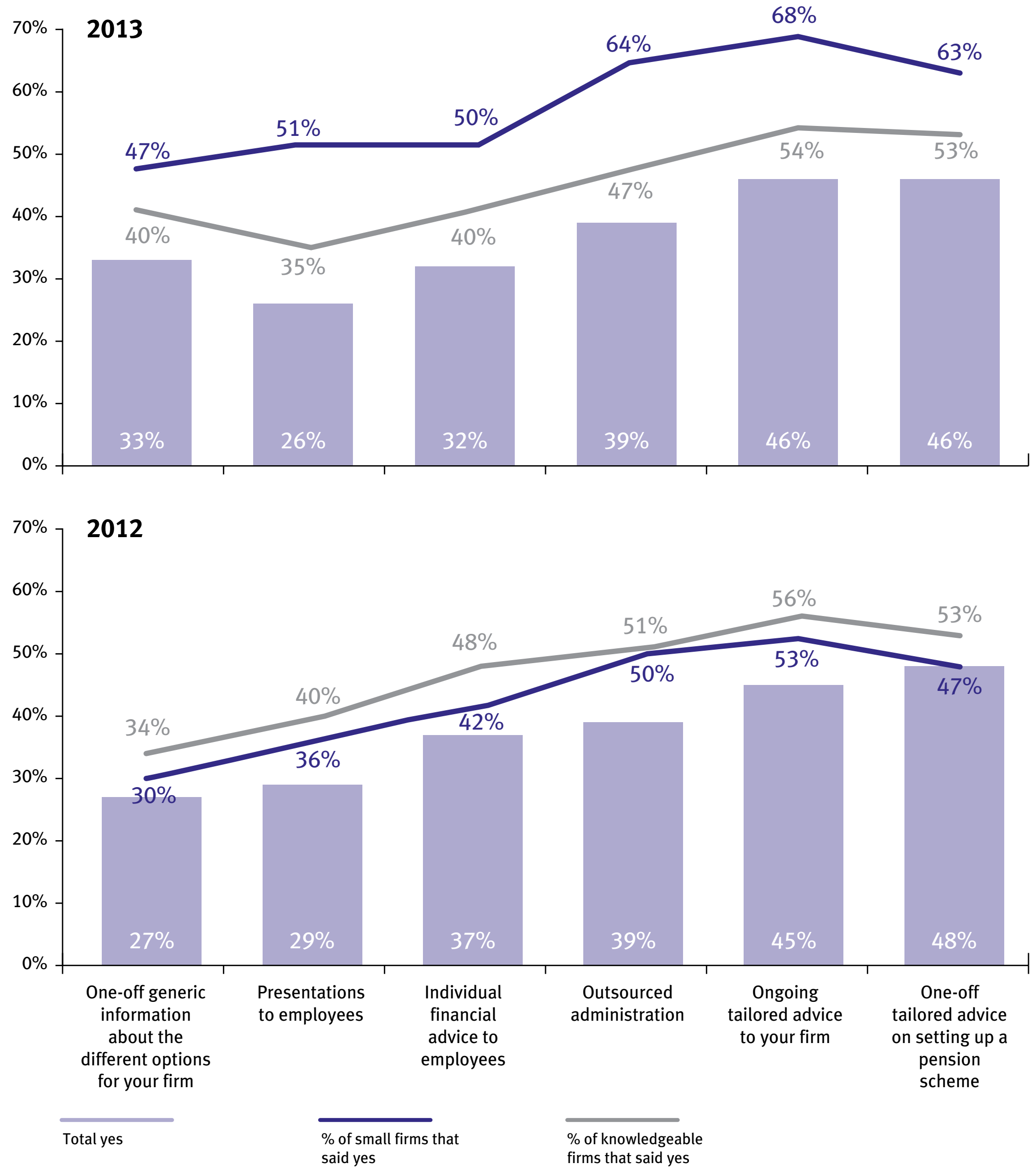
Firm turnover and the extent to which they were aware of the changes were important factors in influencing these desired services, but this was not as significant compared to our next findings on services firms would be prepared to pay for.

What services small business employers would be prepared to pay for

This list of services that firms would like is useful, but then we need to cross-check the results against a separate question assessing their willingness to pay for these services. Our survey results set out in Figure 11 below suggest that firms would most likely be prepared to pay a fee for financial advice for the following services, particularly:

- one-off tailored advice on setting up a pension scheme; and
- ongoing tailored advice on the pension scheme.

Figure 11: Willingness to pay for advice among micro and small firms, 2012 and 2013
Imagining again that you were to seek advice in establishing a workplace pension scheme, which of the external services listed below would you be prepared to pay a fee for? (For bases, see Table 1, p.9)



As in 2012, both these services ranked at the top for all firms, with nearly half still saying they would be prepared to pay a fee for these two services. The percentages are slightly less than last year, but only by one to two percentage points, which is indiscernible given the sample sizes. Again, about 40% of respondents said they would pay for outsourced administration. There were notable variations especially in 2013 by firm size, knowledge and turnover.

a) Firm size: small firms more likely to pay

There was a significant difference in both years for willingness to pay for one-off tailored and ongoing tailored advice by size of firm, and these were most pronounced in 2013. For ongoing tailored advice, nearly 70% of firms would be prepared to pay for this service, and outsourced administration and one-off tailored advice were also highly favoured: 64% and 63% respectively. The fact that the gap has widened from last year probably relates to the earlier finding that many firms in the size have already started thinking about preparing and they understand more fully the challenges that lie ahead.

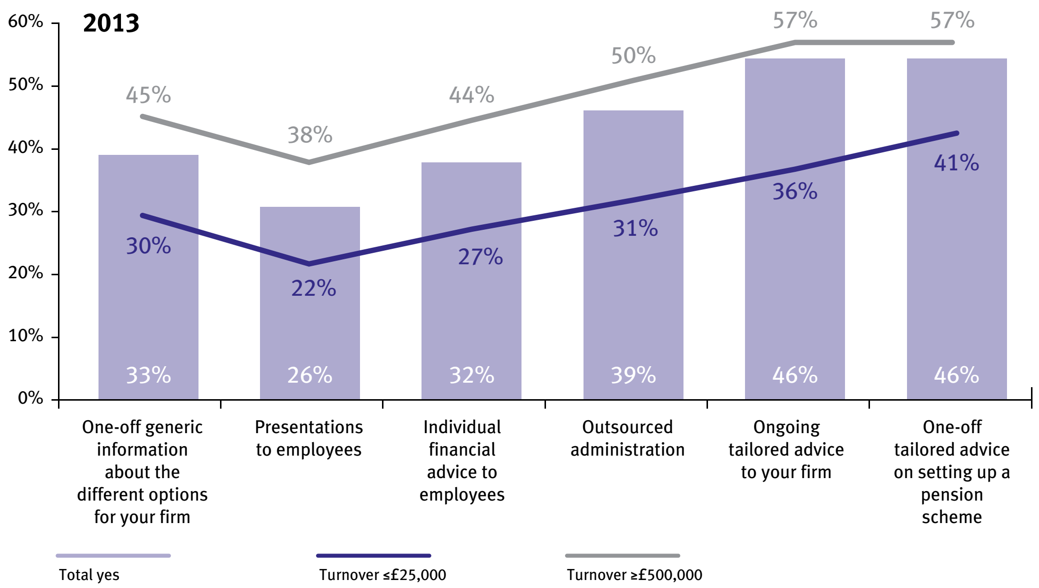
On the other hand, micro firms were far less likely to agree to pay for these services. This explains the large variances between the results for overall firms and small firms. Micro firms dominate the overall sample size given their weighted prevalence in the employer population, whereas small firms have a relatively low weight in the sample, but have higher levels of preparedness. When analysed separately, micro firm preferences were exactly the same in terms of rankings for services they would be prepared to pay for, but were on average about 5–8% less likely to be willing to pay for them.

b) Turnover: higher turnover means more likely to pay

Nearly as important a determinant in willingness to pay as firm size was firm turnover. As shown in Figure 12 below, the largest differences tended to come in at about 8–10% above the overall "total yes" percentages for all firms. As one would expect, the more successful firms are more likely to pay for more expensive external services.

Figure 12: Willingness to pay for advice by total "yes" and turnover range, 2013

Imagining again that you were to seek advice in establishing a workplace pension scheme, which of the external services listed below would you be prepared to pay a fee for? (Base: 503 overall)



Also immediately evident in Figure 11 are the *ranges* between low and high turnover firms were also quite significant, and varied noticeably depending on the service considered. On the upper end of the range is “one-off tailored advice on setting up a pension scheme” which saw a 20% difference between firms with low and high turnover, and at the other end is “one-off generic information about the different options” which only has a 15% difference. This means that financial services firms (advisers or providers) looking to provide advice but are unsure about the firms’ financial position, might want to target firms with narrower range services.

Overall, firms’ financial positions in the run-up to and the aftermath of the auto-enrolment staging date will be an important factor in determining take-up for advice.

c) Awareness of reforms: the more aware firms are more likely to pay

Finally as with last year, there is a clear link between awareness of the reforms and willingness to pay. Firms that said they knew “a fair amount” or “a lot” about the reforms were up to 8% more likely to be willing to pay for services. This is also consistent with findings and conclusions elsewhere in the present survey.

It is also hardly surprising. The more firms are aware of the reforms, the more they appreciate the challenges involved in implementing them, and the more they understand the need for external assistance in preparing. This also links with the firm size point above. Small employers appear on the whole to be more aware of the reforms than micro ones. This is partially because they understand that they are caught by the reforms (whereas there appears to be confusion that micro firms might not be); and partially because many small firms have already started preparing.

Key take-aways: services firms want and are prepared to pay for

Main services desired: we determined that “one-off tailored advice on setting up a pension scheme”; and “ongoing tailored advice on the pension scheme” were the services firms desired and were most likely prepared to pay for. Presentations and individual financial advice to employees were the least preferred options, though a third of firms would be prepared to pay for these services as well.

Firm size a huge determinant: small employers were much more likely to want to pay for these services than micro ones, reflecting the higher number of employees they have to deal with but also their patterns of awareness of the reforms and their perception of the closeness of the staging dates.

Turnover equally important: as one would expect, firm turnover is as important a factor as firm size for this issue. Firms with turnover of £500,000+ were up to 15% more likely to want to pay for these services, whereas less successful firms were up to 10% less likely. Financial services firms looking to target employers for advice and assistance should focus on the firm’s turnover as an indicator when setting up their client service proposals.

Firm awareness is also critical: as is the case throughout these findings, more firms that are more aware of the reforms are more likely rather than less likely to pay for external assistance. They have a better appreciation of the complexities and challenges in implementing these reforms.

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