Employer pension contributions in the UK

The current landscape and the potential for innovation

abrdn Financial Fairness Trust

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Contents

Glossary

Annual allowance
The most that can be saved into an individual's pension pots in a tax year before tax is payable. The annual allowance for the 2022/23 tax year is £40,000.

Automatically enrol
Making a worker who meets certain requirements a member of a qualifying workplace pension scheme without them needing to ask to be enrolled.

Auto enrolment
The Pensions Act 2008 requires every UK employer to automatically enrol workers who meets certain requirements into a qualifying workplace pension scheme. Employers must make at least the mandatory minimum contribution each pay period into a pension scheme based on the worker's eligible earnings, with the worker usually making contributions to reach a mandatory minimum total contribution. Workers can opt out within one month of being enrolled. They can also stop contributions at any time.

Auto escalation
An approach by which an employee can commit now to automatically increasing their pension contribution in future, for example when they get a pay rise or after a year.

Defined benefit (DB) scheme
A type of pension scheme where the saver receives a regular income on retirement, determined by, for example, their length of service and salary.

Defined contribution (DC) scheme
A type of pension scheme where the amount the saver receives at the end depends on how much they put in and by how much their money has grown through investment.

Earnings trigger
The level of wages an employee must earn from a single employment for their employer to be required to automatically enrol them into a qualifying workplace pension scheme if they're aged 22 to State Pension age. The threshold is currently set at £10,000.

Employee contribution
The amount an employee pays into their workplace pension each pay period. Additional contributions can also be made on an adhoc basis.

Employer contribution
The amount an employer pays into their employee's workplace pension each pay period.

Individual Savings Account (ISA)
An account in which people can save money without paying income tax on the interest. For 2022/23, individuals can save up to £20,000 during the tax year.

Lifetime allowance
The total amount of pension savings an individual can build up without a charge being applied when they take their benefits. For the 2022/23 tax year, the lifetime allowance is £1,073,100.

Master trust
A pension provider that can be used by many unrelated employers to provide their employees with access to a workplace pension scheme.

Matched contributions or Matching
An approach where the employer contributes more to an employee's pension pot if the employee also increases their contribution.

Minimum contribution levels
The minimum amount set by law that must be paid into a workplace pension. As at September 2022, the minimum contribution rate is 8% of which at least 3% must be paid by the employer.

Net pay approach
Employee contributions are deducted from gross pay before income tax is calculated. This means that pension tax relief is already included and does not need to be added by the pension provider.

Pension contribution level
The percentage of pensionable pay that an employer and employee pay into a pension scheme, including any tax relief.

Pension contribution model
The structure or approach an employer uses for their pension contribution offering.

Qualifying earnings
The total gross earnings that fall within a band set by the government and qualify for minimum contributions under employer duties. For the 2022/23 tax year this is between £6,240 and £50,270.

Relief at source approach
An approach used to give employees tax relief on their pension contributions. Pension contributions are deducted from an employee's wages after tax and, if the worker is eligible, the pension provider then claims tax relief at the basic rate of 20% back from HM Revenue and Customs (HMRC) on their behalf which is then paid into their pension pot. Tax relief above the basic rate should be claimed by the employee from HMRC.

Salary sacrifice / salary exchange
An arrangement where an employee gives up part of their salary and in return the employer pays it into their pension pot as an employer contribution. This can create a more tax-efficient way for employees to make pension contributions.

Quick read

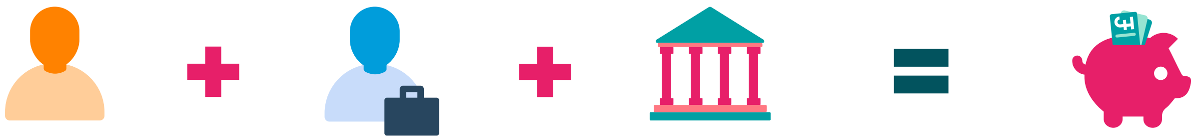
This research explores the current employer pension contribution landscape in the UK and considers how this could evolve in future to better support employee financial security in retirement.

Data was collected in qualitative interviews and via a survey of pensions decision makers at UK employers in March and April 2022. It was weighted to be representative of employers based on their contribution to employment, rather than the incidence of that size of employer in the total business population. It has also been weighted to reflect industry and region (see pages 21-22 for further details).

Minimum employer pension contributions

What are the minimum contribution levels in the UK?

UK pension regulations require employers to automatically enrol eligible workers into a pension scheme. There is a minimum mandatory contribution level of 8% of a qualifying band of earnings, of which at least 3% must come from the employer. Employers can choose to set higher contribution levels.



4% Employee + 3% Employers + 1% tax relief = 8% total contributions

So, how many employers stick with the minimum contribution levels?

4 in 10 employees work for an employer offering the minimum 3% employer contribution to all their employees. **A further 2 in 10** employees work for an employer which offers the minimum contribution for some of their employees.

Why do these employers offer the minimum employer contribution to their employees?

Affordability and prioritising putting money into base salaries are key factors. In addition, minimum contribution levels are acting as strong defaults.

Of employers offering the minimum employer contribution of 3% to all their employees:

Nearly 1 in 3

say that is because it is the amount **recommended** by government.

1 in 5

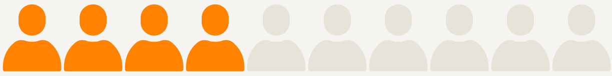
say they were driven by the **default setting** in their payroll software or pension provider set up.

1 in 20

say they **did not know it was possible** for an employer to contribute more than 3%.

Above-minimum employer pension contributions

However, many employers do offer more than the minimum employer pension contribution:



4 in 10 employees work for an employer offering more than the minimum 3% employer contribution to all their employees.

Which employers are most likely to offer above-minimum contributions to their employees?

Larger employers are more likely to offer above-minimum contributions to their employees:

Around half of large employers offer employer contributions above 3% for all their employees…

compared to only **a quarter** of small organisations.

Employers are more likely to offer above-minimum contributions if they predominately have employees that are:

Salaried

Higher earners

Longer tenured

Which employees are benefiting the most?

Current models often direct any higher-than-minimum employer pension contributions to employees who are likely to already have greater financial security and/or be more confident and active in two main ways:

Matching

One third of employees work for an employer that offers matched contributions to all their employees…

with **a further 17%** working for an employer that offers contribution matching to some of their employees.

This contribution model rewards employees who are **more financially confident** and **can afford to contribute more**.

Seniority

Amongst the employers who offer higher than the minimum contributions to some but not all of their employees, the most common reason for doing this was seniority, where a higher contribution is made by the employer for employees at certain levels or in certain roles.

3 in 5 of these employers report seniority as the top factor behind contributing more than the minimum to some employees' pensions.

Pensions contributions strategy

If employers were to start from scratch and implement a new pension contributions approach, what would be most important?

Employers want their pension contribution approach to:

- **give employees flexibility**
- **encourage higher employee contributions**
- **be affordable**
- **simple to administrate**

Employers are divided on how best to target pension contributions – to the most engaged, those most in need, or everyone equally.

The most engaged?

1 in 5

employers said contributing more for those who are **most engaged** with retirement saving would be a top priority

"We only give extra money to people who value it – that's the 'reward' principle."

Those most in need?

1 in 5

employers said that boosting retirement saving for those on the **lowest incomes** would be a top priority

"If we could start again, I would do something more generous on the first £20k and then less generous after that."

Or everyone equally?

1 in 3

employers said **equality** would be a top priority

"I would like it to be more fair so everyone had the same level of contribution."

The potential for evolution

How likely are employers to change their pension contributions approach in the coming years?

Nearly 2 in 3

employers say their organisation is unlikely to implement a different approach to pensions contributions in the next two to five years…rising to **3 in 4** smaller employers.

What alternative approaches are employers interested in?

Despite this, there were relatively high levels of interest in alternative contribution approaches, all of which are possible within the current regulatory framework:

Around 2 in 3

employers thought a **salary sacrifice** approach was appealing. In this model, employer and/or employee tax savings could potentially be added to pension contributions to boost the employee's retirement saving without either experiencing this as an increased cost of contributions.

Around 5 in 10

employers thought an **auto escalation** approach was appealing. In this model an employee can commit now to automatically increasing their pension contribution in future, for example when they get a pay rise or after a year.

Around 4 in 10

employers thought **hybrid approaches** combining pension saving and other forms of saving were appealing. One example of a hybrid model is 'sidecar saving' where employees build up a pot of liquid emergency savings alongside their retirement savings.

Around 1 in 3

employers thought **higher default contributions with the option to opt down** were appealing. In this model, employees can choose to opt down to minimum contributions from a higher default, rather than them having to opt in to making higher contributions.

Executive summary

Background

UK pension regulations require employers to automatically enrol eligible workers into a pension scheme. There is a minimum mandatory contribution level of 8% of a qualifying band of earnings, of which at least 3% must come from the employer. Employees can opt out of auto enrolment or stop contributions later. Both employers and employees can contribute at higher levels voluntarily.

Auto enrolment has greatly increased the proportion of UK workers saving into a pension. However, it is widely understood that minimum contribution levels will not be enough to ensure adequate income levels in retirement for many workers. There are therefore calls for the minimum contribution levels to increase. What has been less well understood is the extent to which employers already contribute at higher-than-minimum levels for their employees, how any additional employer contributions are distributed across the UK employee population, and what employer appetite there is for further voluntary increases or other changes to contribution structures.

This research set out to understand the current employer pension contributions landscape and the reasons employers contribute to workplace defined contribution (DC) pensions at the levels they do. It also sought to identify the extent to which changes in employer pension contributions could be an effective lever to improve retirement income adequacy for UK employees. As part of this, it explores the potential of a range of alternative models.

Approach

The research was conducted in three phases in 2021 and 2022:

- **Landscape review** – comprising desk research, expert interviews and analysis of Nest administrative data.
- **Qualitative research** – 30 in-depth interviews with employers, their advisors and industry bodies.
- **Quantitative research** – a nationally representative online survey conducted in March and April 2022 with 500 employer pension decision makers. Data has been weighted to reflect the employer population by employment rather than incidence, as well as industry and region.

Findings

The current employer pensions contribution landscape

- **Following auto enrolment, many employers are offering more than the minimum required contributions.**
  - Nearly 4 in 10 employees work for an employer offering more than the minimum 3% employer contribution to all their employees, and a further 2 in 10 work for an employer which does this for some of their employees.
  - Around 4 in 10 employees work for an employer that calculates pension contributions on all earnings, not just the minimum required band of qualifying earnings.
  - Half of employees work for an employer that offers matched contributions to some or all employees, where they put in more if the employee puts in more than the default level themselves. Around 1 in 3 employees work for an employer that offers this to all employees.
- **Employees are more likely to receive higher employer pension contributions if they work for a larger employer.** Larger employers are more likely to offer more than the minimum 3% employer contribution to their employees' pensions. They are also more likely to make this contribution on all earnings, rather than the minimum band of qualifying earnings, and to offer matched contributions where the employer contributes

more if the employee also increases their contribution. These three factors combined act as a triple boost to employer pension contributions for employees working for larger employers.

- **Employees who are in manual roles, lower earning and those with shorter tenure are less likely to receive more than the minimum employer contribution.**
- **Current models are often directing any higher-than-minimum employer pension contributions to employees who are likely to already have greater financial security or be more confident and active.** Of the employers who offer higher-than-minimum contributions to some but not all of their employees, the most common reason for doing this was seniority, where a higher contribution is made by the employer for employees at certain levels or in certain roles. Matching contribution models also reward employees who are more financially confident and can afford to contribute more.

Employer pension contributions decision making

- **Few employers actively consider employee retirement adequacy when setting their pension contribution levels.** Only 6% of employers who offer more than minimum contributions for some or all of their employees say that the levels set were driven by modelling retirement outcomes or considering salary replacement rates for their employees. Employers who have, or previously had, a defined benefit (DB) scheme in place are more likely to consider retirement outcomes when setting their defined contribution (DC) pension contribution levels.
- **Legal compliance is the most commonly cited factor driving employer pension contribution levels.** Just over half (54%) of all employers report legal compliance as a factor driving the organisation's pension contribution levels. This is by far the most important factor driving pension contribution levels for smaller employers.
- **Minimum employer contribution levels act as strong defaults and are seen as recommended levels by some employers.** Of those employers who offer the minimum employer contribution level to all their eligible employees, nearly a third (31%) said the reason for this is that 'it is the amount recommended by government' and 1 in 5 (20%) were driven by the default setting in their payroll software or pension provider set up. A further 1 in 20 (5%) of these employers did not know it was possible to contribute more than 3% as an employer.
- **Affordability is the main reason given for contributing the minimum for all employees.** Around half (51%) of employers who contribute the minimum for all employees say they cannot afford to contribute more than this. Around a quarter (26%) of employers contributing the minimum for all employees say that this is because they prioritise putting money into base salary.
- **Retention, supporting employees to save for retirement, and recruitment are the main reasons why organisations offer more than the minimum contribution for some or all employees.** Where employers do have a strategy behind their pension contribution structure it is often developed in response to norms in their sector, either informed by benchmarking, advisors and/or assumptions about recruitment and retention.

The potential for evolution in additional employer pension contribution levels

- **Employers see very limited opportunity to make changes to existing pension contribution models and levels.** Nearly two thirds (62%) of employers say their organisation is unlikely to implement a different approach to pensions contributions in the next two to five years, rising to three quarters (74%) of smaller employers, and 1 in 10 (10%) say they don't know. The current challenging economic context, the inflexibility of legacy systems and the complexity of some employers' pension provision all act as strong barriers to change, even when there is an appetite for enhancing the existing model. Additionally, many individuals responsible for pension decisions in smaller organisations lack the knowledge and confidence to consider doing anything other than the default contributions. Managing the pension scheme is often a very small part of the role for these individuals and given little consideration beyond initial auto enrolment compliance, which has often been dealt with externally by an account or bookkeeper.

- **Retirement outcomes are seen by most employers to be mainly the employee's responsibility.** 60% of employers consider the employee to be the most responsible for ensuring they have a financially secure retirement, 20% said the government was most responsible and only 13% that the employer was most responsible. Employers often feel that their impact on employee retirement outcomes is minimal when employees have multiple jobs over their working life.
- **If employers were to implement a new approach to pension contributions, the top priorities would be minimising costs, equality, and giving employees flexibility.** Employers were interested to learn of models and approaches that encourage and support employees to save more for retirement without adding higher overall contributions costs for the employer. For example, if auto escalation of employee contributions or higher default employee contributions with the option to opt down were straightforward and low cost to administer for employers, these models could allow employers to better support employees even if they were not able to contribute more themselves.
- **A key difference in employer pensions contribution thinking is whether to target pension contribution spend equally across a workforce, at those who need it most, or at those who are most engaged.** Whilst around a third of employers (32%) said equality would be a top priority if they were to implement a new pension contributions approach, around one in five employers (20%) said that boosting retirement saving for those on the lowest incomes would be a top priority and a similar proportion (19%) said that contributing more for those who are most engaged with retirement saving would be a top priority. Low employee pension engagement can be a barrier to employers investing more in pension contributions because the return on their investment in terms of employee retention and motivation is seen to be low.
- **Out of the pension contribution approaches explored in this research, the one seen as having the highest potential to boost contributions was a wider adoption of salary sacrifice in pension contributions**. This was particularly true amongst smaller employers. Around two thirds (67%) of employers said this approach was appealing to their organisation now or in future. The model offers a 'win-win' with savings on National Insurance for both employers and employees. Currently, 45% of employers don't offer a salary sacrifice pension arrangement or don't know if they do, rising to 73% of small employers.[1] It is worth noting that this model can be complex to implement unless support is in place and it may not be suitable for all employees. However, this model has the potential to boost employee financial security because employer and/or employee tax savings could potentially be added to pension contributions to amplify employee retirement saving, or alternatively put towards an emergency saving pot.
- **There were quite high levels of interest in using defaults and nudges to support employees to save more, including auto escalation approaches and higher defaults with the option for employees to opt down.** These could either work in conjunction with higher employer contributions, or alternatively could provide ways for employers to do something to support their employees towards increased retirement incomes without increasing their own financial commitment to contributions.
- **Hybrid approaches combining pension saving and other forms of saving were also appealing.** Many employers are looking to support their employees' financial wellbeing in the short term, with an increasing focus on this in the current economic context.

Conclusions

Auto enrolment has greatly broadened access to employer pension contributions. Most employees now have access to a workplace pension and are receiving at least the minimum employer contributions of 3%, as well as making their own contributions. Many employers contribute at more than the minimum level for some or all of their employees. However, access to above-minimum employer pension contributions is unevenly distributed, and dominant pension models target higher contributions at those who are, arguably, least in need of the support.

[1] NB data has been weighted to be representative of employer size by employment. Please see box on p21-22 for more information on this approach.

It is unlikely that most employers will actively set out to re-evaluate their pension contributions approach in the near future, and there are many systemic and behavioural barriers to change. Despite this, there is some appetite for evolution and improvement and a growing focus on more equal structures, as well as those that target support at those most in need.

If new models are to be organically adopted at scale, then solutions will need to be designed to overcome the employer barriers and biases. Despite the challenges, there are pockets of opportunity, in particular where an employer can support their employees to save more for retirement at little or no extra cost to the organisation, or where there is also a benefit for the employer such as with a salary sacrifice approach.

Introduction

UK pension regulations require employers to automatically enrol eligible workers into a pension scheme, and where those workers do not choose to opt out, employers are required to make a minimum pension contribution of 3% of qualifying earnings into that scheme. Some employers contribute more than this for their employees, and there have been calls for minimum contribution levels to rise. However, to date there's been a lack of evidence and understanding about actual contribution levels and employer motivations and decision making.

Workplace pensions in the UK

The UK introduced pensions auto enrolment in 2012. Under the legislation, employees and employers make mandatory minimum contributions each pay period into a pension scheme based on their eligible earnings. Jobholders must be automatically enrolled if they make £10,000 or more a year, though they can also ask to be enrolled by their employer if they earn less. Larger employers were brought into the programme first, with employers of all sizes participating by February 2018.

The levels of minimum mandatory contributions into defined contribution (DC) pension schemes were phased in over time to reach 8% on a band of earnings – of which at least 3% must come from the employer. Employees can opt out of auto enrolment or stop contributions later. Around 9 in 10 eligible employees participate by not opting out.[2]

Auto enrolment has been a successful force in ensuring the vast majority of UK employees are saving for retirement. Most employees over the age of 22 and earning more than £10,000 a year are now enrolled in a scheme where a minimum of 8% of their qualifying earnings is contributed to a pension in their name, and then invested on their behalf.

The role of employer pension contributions

UK pension regulations mandate minimum contributions to go into an individual's workplace pension via payroll if they are an eligible employee and choose not to opt out. Yet for many people these are set too low to ensure adequate incomes in retirement. Recent research by the Living Wage Foundation, abrdn Financial Fairness Trust and the Resolution Foundation found that the vast majority of workers (over 80%) are not saving enough to meet a Living Pension target, meaning that they will not have enough income to afford an acceptable standard of living in retirement. Lower-paid workers were found to be especially unlikely to have pension contributions that meet the Living Pension benchmarks.[3] Similarly, research by the Pensions and Lifetime Savings Association (PLSA) in 2018 showed that at a contribution rate of 8% of band earnings around half of savers (51%) are unlikely to meet the Pension Commission's Target Replacement Rate.[4]

Indeed, the minimum contribution levels recommended by the Pensions Commission and implemented in the Pensions Act 2008 were always designed to be just that – minimums rather than recommendations. It was anticipated that in most cases, to achieve an adequate retirement income, additional voluntary

[2] **Automatic enrolment evaluation report 2019 - GOV.UK (www.gov.uk)**

[3] N Cominetti & F Odamtten, Living Pensions: An assessment of whether workers; pension saving meets a 'living pension' benchmark, Resolution Foundation, July 2022: **https://www.resolutionfoundation.org/app/uploads/2022/07/Living-Pensions.pdf**

[4] PLSA, 'Hitting the Target: A Vision For Retirement Adequacy', July 2018: **https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2018/Hitting%20The%20Target%20-%20A%20Vision%20For%20Retirement%20Income%20Adequacy.pdf**

contributions would need to be made – by the employee, the employer, or both. Engagement techniques and educational interventions have, for the most part, proved ineffective at getting individuals to contribute more. Policy debate has therefore increasingly focused on raising statutory minimum contributions as a way of supporting more employees to reach an adequate retirement income, with multiple voices calling for a minimum combined employer and employee contribution of at least 12%.[5]

The role of voluntary additional contributions from the employer is less examined. These contributions can directly boost savings, may incentivise additional member contributions, and could support broader financial wellbeing goals. The design of employer contributions is also a factor determining the distributive effects in the retirement outcomes of different cohorts of workers. Some employers already contribute more than the legal minimum for all employees, for those willing to increase their own contributions in a 'matching' structure or for certain groups of employees.

Encouraging more employers to increase their contributions or to optimise their contributions structures in other ways may both be paths to greater savings adequacy. However, we also know that there are significant barriers to change in employer pension contributions structures. Clearly, the cost of contributions is a significant factor. Employers, as well as individuals, have been impacted by the pandemic – many financially, but also in terms of headspace and bandwidth for change – and they are now facing rapidly escalating costs in a period of historically high inflation.

Given this, how much of a lever for improving retirement outcomes could employer contributions be? Is there an opportunity here, or are the contextual and structural barriers to change too great to make this potential a reality?

The existing evidence base

Until now it has been difficult to get a rounded or detailed view of the current employer contributions landscape from existing data. The scale of additional employer contributions on offer and, in particular, the extent of actual take up has been unclear. There is also a lack of evidence and understanding about the attitudes of employers and the dynamics at play in their decision making.

The secondary data available as we began this research was mostly collected before auto enrolment was fully implemented across all employers, presenting only a limited view of the landscape today, or it concentrated only on the largest UK employers. There was also a lack of good evidence on the number and types of employers offering above-minimum contributions, to whom and in what form.

Some patterns from the existing available research are, however, worth noting:

- Public sector employees are more likely to be offered higher employer contributions. Private sector employer contribution rates tend to be lower.[6]
- Employer contributions to DC schemes are comparably much lower than they were to defined benefit (DB) schemes. Nearly half of DC members received employer contributions of 2–4% of pay (2018–2019). 46% of DB scheme members received employer contribution rates of 7% and over, with 32% receiving between 15–20%.[7]

[5] For example, see recent calls by the ABI, PLSA and Scottish Widows: ABI, Automatic Enrolment: What will the next decade bring?, June 2022: **https://www.abi.org.uk/news/news-articles/2022/06/automatic-enrolment-action-plan-needed-for-the-next-decade/**
PLSA, WPSC Call for Evidence: Saving for later life – PLSA Response, February 2022: **https://www.plsa.co.uk/Policy-and-Research/Document-library/WPSC-Call-for-Evidence-Saving-for-later-life-PLSA-response**
Scottish Widows, 2022 Retirement Report, June 2022: **https://www.scottishwidowsretirementreport.co.uk/**

[6] ONS, Annual Survey of Hours and Earnings – Employee Workplace Pensions in the UK 2020 – **Annual Survey of Hours and Earnings: summary of pension results - Office for National Statistics (ons.gov.uk)**

[7] ONS, Annual Survey of Hours and Earnings – Employee Workplace Pensions in the UK 2020

- Younger people (under 29) experience lower employer contribution rates than older workers.[8]
- In the private sector, higher-paid employees have generally experienced higher employer contributions levels, either because they contribute more than the minimum, are offered better match rates, or contribute more to attract the better match rate.[9]
- The majority of FTSE 100 and FTSE 250 companies offer a matched contribution structure.[10]
- There is some evidence that listed companies are increasingly allowing employees to flex pension contributions into alternative savings vehicles.[11]
- Research conducted in the US shows the wide variety of contribution models that employers are using. A recent report notes that employers used over 170 different matching formulas.[12]

Towards a more rounded picture

In this research, Nest Insight aimed to address these gaps in understanding, looking across a broad range of employer types with a focus on workplace DC pension schemes, to answer the following kinds of questions:

- How many of the 10 million workers brought into retirement saving though auto enrolment are offered additional employer contributions in some form? What are the levels of additional contributions? What contributions models are most prevalent?
- How are pension contribution levels decided? What are employers' motivations for going beyond the minimum? Under what conditions would employers consider increasing contributions?
- What alternative design options might make more effective use of limited employer budgets, in terms of potential end benefits to employees? What appetite is there to adopt these design options? How feasible would change be?

8 Ibid

9 Ibid

10 WTW, Defined Contribution Pension Survey 2021, 2021 - **FTSE 350 Defined Contribution Pension Survey 2021 - WTW (wtwco.com)**

11 WTW, Defined Contribution Pension Survey 2021, 2021

12 Vanguard, How America Saves, 2022 – **How America Saves (vanguard.com)**

Research approach

Objectives

This research seeks to understand the role that employers play in determining their own contribution levels and encouraging take-up of increased employee contributions in defined contribution (DC) workplace pension schemes. It aims to explore current practice, employer attitudes and the scope for broader adoption of higher contributions and more innovative matching strategies.

Specifically, the research objectives we set out to meet are:

- Explore the current landscape of employer and employee contribution levels and structures and identify the prevalence of contribution levels above the required minimum levels, in terms of what is offered, and in actual take-up.
- Understand employer decision making, and appetite and motivations for going beyond the minimum.
- Explore the needs, appetite and scope for alternative design options that could make more effective use of employer budgets.

Methodology

We used a mixed research methodology approach to address these research questions, allowing a deep and robust understanding of the current landscape, why it has come to be this way, and how it might evolve. We outline our approach below.

Please see the technical report for more information about the methodology and analysis approaches, as well as more detail on sources, samples and research materials.[13]

Landscape review

To build our understanding of the current practices and thinking, as well as help us design the later two stages, our first stage included a review of the current landscape. For this review, we conducted desk research, expert interviews and secondary analysis of Nest administrative and customer relationship management (CRM) data.

Desk research

We started with a focused desk research phase to review existing sources of data on employer and employee contributions in the UK and internationally.

For our literature review, we included:

- **Official data sources**, including the Office for National Statistics (ONS) Occupational Pensions Scheme Data and the Employers' Pension Provision Survey (EPP).
- **Industry perspectives and research reports** including the Pensions and Lifetime Savings Association's (PLSA) Facing the Future UK Workplace Pension Schemes Survey and the Willis Towers Watson FTSE 350 employer survey.
- **Learnings from behavioural research and papers**, including those written by leading academics James Choi, David Laibson, Brigitte Madrian and Shlomo Benartzi, looking at the impact on savings behaviours of different incentives to save more including different contributions structures.

[13] https://www.nestinsight.org.uk/wp-content/uploads/2022/09/Employer-pension-contributions-in-the-UK-technical-report.pdf

Expert interviews

To stretch our thinking on different possible models and their potential benefits and drawbacks, we conducted interviews of around 45 minutes with 5 experts, including behavioural economists with expertise in this area, a technical expert at a master trust and policy leads from industry bodies.

The following topics were covered in the interviews:

- Views on the role that employers can play in boosting retirement income adequacy and broader financial wellbeing, now and in the future.
- Guiding theories and principles as well as perceived drivers and barriers for both existing and more innovative pension contributions structures and matching strategies.
- Examples of effective and innovative pension contributions strategies seen both in practice and in academic research.

Nest data analysis

As a first exploration of the range and distribution of different contribution strategies that exist in the UK, we conducted secondary analysis of Nest administrative and CRM data. While the outcome of this analysis does not give us a fully representative picture of contribution strategies used by UK employers, it is nonetheless a large sample of UK employers and also helped us with the design and interpretation of the later stages of our research.

The sample for this analysis included employers who have made at least one contribution in the period March 2021 to October 2021 and comprised 507,000 employers making 34 million contributions in this period.

When referring to the findings of this analysis, please note the following specifics about Nest employer membership:

- Nest's data is limited to those employers using Nest as their workplace pension, which include a high proportion of employers whose decisions were driven by the need to comply with auto enrolment requirements.
- For many Nest employers, especially larger employers, the Nest data are limited to a subgroup of workers who are often lower-paid and higher-turnover segments of the workforce.
- Administrative data can only show how an employer configured Nest, not the rationale for doing so. There are also blind spots in our analysis: for instance, an employer who appears to make up the full 8% minimum contribution in exchange for a 0% employee contribution may in fact be using a salary sacrifice arrangement, where the employee is in effect still paying the equivalent cost of a contribution.
- The on-screen set-up process that most employers used to configure Nest was historically deliberately designed to guide them towards a simpler set-up, with defaults at the minimum contribution levels.

Qualitative research

The second stage included qualitative research with employers, advisors and influencers. In January 2022 and February 2022, we conducted 30 in-depth interviews. Each interview lasted between 45 minutes to an hour and was conducted online.

Sample

The sample included 22 employer pension decision makers across a range of sizes (employee numbers) and industries, and 8 employer advisors and influencers. Our sample was split as follows:

Table 1: Sample breakdown for qualitative research

Employer sample	Number of interviews
Up to 250 employees	4
250 – 999 employees	4
1,000 – 4,999 employees	4
5,000 – 29,999 employees	4
30,000 employees and more	6

Employer advisor and influencer sample	Number of interviews
Employer benefit consultants	4
Union representatives	2
Industry bodies	2

Topics covered

The interviews covered the following topics:

- Business context and background.
- Impact of external factors including Covid-19 and economic context.
- Details on current pension arrangements offered and how this might sit within wider benefits offering and broader financial wellbeing strategies.
- Details on current defined contribution (DC) pension contribution structure(s) offered and how this might vary for different groups.
- Motivations and decision-making process behind current contribution arrangements, including influencers, budgeting and trade-offs.
- Drivers for and barriers to adopting alternative and innovative contribution structures.

Some case studies and quotes have been generalised to protect anonymity,

Quantitative research

The final research stage involved a 20-minute online quantitative survey with 500 UK employer decision makers. The survey was conducted by YouGov and was in field between 23 March 2022 and 9 April 2022.

Sample and screening criteria

The sample was drawn from YouGov's UK business panel, which has been pre-screened across a number of variables, thereby enabling the identification of eligible individuals with responsibility for decisions involving pensions at their company.

In addition to this pre-screening, further in-survey screening was included to ensure that all respondents completing the survey satisfied the following criteria:

- Knowledge of how pension scheme decisions are made in their organisation, and how schemes are run.
- A defined contribution (DC) scheme offered in their organisation.

Survey topics

The questionnaire predominantly contained closed questions and some open-ended questions. The following topics were included in the following order:

- **Firmographics** including sector, legal structure, employee profile, payroll set up.
- **Employee benefit offering**.

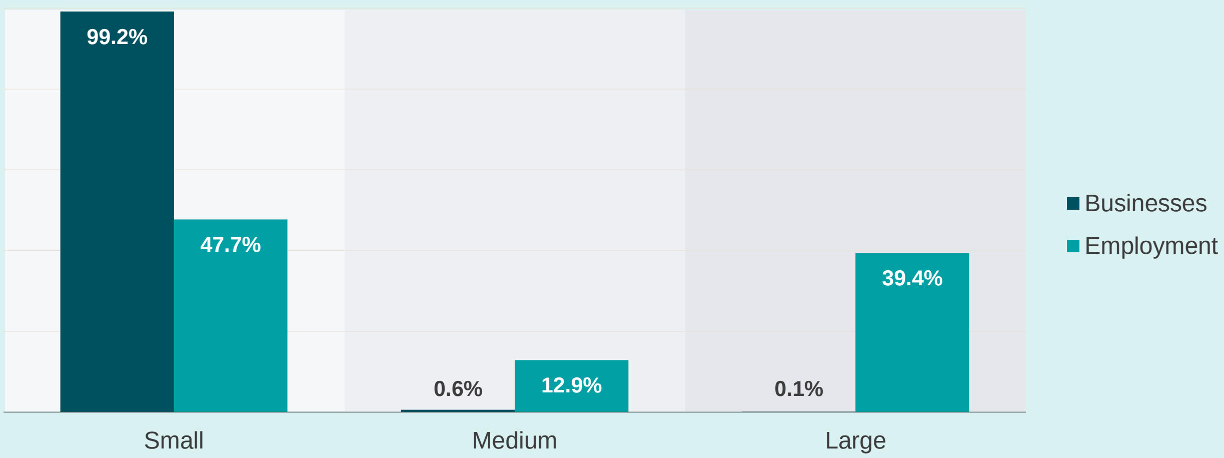
- **Pension set-up** including number of schemes, type(s) of scheme(s), review and employee engagement.
- **Pension contributions set-up** including auto enrolment offering, matching offering and take-up, reasons for offering minimum pension contribution levels or more, salary sacrifice offering and take-up.
- **Pension contribution levels** including base / default and maximum levels offered within each scheme and/or sub section of a scheme, and whether these are based on qualified earnings or all earnings.
- **Pension contribution decision making** including influence of decision makers, factors for decision making, budgeting and triggers for change.
- **Responses to different contribution structure features and approaches** including ranking of key features and evaluation of alternative approaches.

An important note on interpretation of survey data included in this report: looking at the employer population by contribution to employment, rather than the number of businesses of each size

Our focus in this research is on the role employers play in the workplace pension outcomes of their employees.

According to government business population estimates for 2021, 99.2% of the total business population is made up of small employers – those with 0–49 employees.[14] However small employers account for a much lower proportion of employment: 48% of employees work for a small employer.

Figure 1: Contribution of different sized employers to total UK business population and employment, as at the start of 2021



Source: Department for Business, Energy & Industrial Strategy, Business population estimates, 2021

If we were to simply consider the proportion of businesses responding to certain survey questions in different ways, the results would be highly skewed to the profile of smaller employers, even though they only employ around half of employees. We believe that this would give a distorted view of the

[14] Department for Business, Energy & Industrial Strategy Business Population Estimates **for the UK, 2021:** **https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1019907/2021_Business_Population_Estimates_for_the_UK_and_regions_Statistical_Release.pdf**

landscape when our research questions are focused on the impact of employer pension contribution approaches on employees.

In our analysis and reporting we have therefore looked at the employer population through the lens of employment and weighted the survey data accordingly. This means that when we say, for example '4 in 10 employers do X', this data has been weighted to be representative of employers based on their contribution to employment, rather than the incidence of that size of employer in the total business population. This therefore can also be interpreted as '4 in 10 employees work for an employer that does X', and in places in this report we have stated the results in this way. Where we feel it is particularly important to show the difference between the weighted and unweighted data, we have added a footnote.

Data weighting

Initial quotas based on the Business Population Estimates 2021 figures[15] were set for fieldwork for:

- business size by contribution to employment
- industry
- region.

The survey approach provided good reach across the employer population in terms of industry and region. However, as has been found in other research with employer decision makers, it was particularly difficult to recruit individuals working in large businesses. This meant that for business size in particular the achieved figures varied from the quotas. In the data processing phase of the project, the data were weighted back to the original quota figures, which meant that responses from large employers needed to be upweighted:

Employer size	Achieved	Quota/ weighted figure	Grouping
2 to 4	32.7%	17.6%	Micro
5 to 9			
10 to 19	29.7%	18.6%	Small
20 to 34, 35 to 49			
50 to 99	20.3%	15.7%	Medium
100 to 249			
250 to 499	17.3%	48.1%	Large
500 to 999, 1,000 to 4,999, 5,000 to 29,999, 30,000 or more			

The discrepancies between the achieved sample and the weighted figures for employer size led to a relatively low weighting efficiency score for employer size of 48%. This was in contrast to region and industry which achieved weighting efficiency scores of 97% and 74% respectively. The overall weighting efficiency was 38%.

15 Department for Business, Energy & Industrial Strategy Business Population Estimates for the UK, 2021

Notes and limitations

The survey findings of this research should be seen in the context of limitations in the research approach. One key challenge in the design of this stage was how to collect and analyse data in a way that would provide a clear picture of the diversity of approaches and practices in use by UK employers. Where the previous research stages helped us understand and identify the wide variation of factors and components that influenced what employers are offering their employees in terms of pension contributions, it became clear early in the questionnaire design process that despite emerging patterns and themes in our research data, translating these patterns and themes into a user-friendly survey aimed at a time-poor business audience was not going to be straightforward.

A particular difficulty was to achieve a more granular picture of the different employer contributions structures than was previously available, and this was further complicated because we wanted our results to be representative of the full UK employer landscape, meaning we needed our survey to be completed by organisations with varying levels of understanding of what can be a complex topic. These challenges meant that we had to be pragmatic in some of our design decisions and we had to accept that, if the survey was to give a full and broad picture of all employers in the UK, it might not be able to fully catalogue all the approaches in place at organisations with more complex pension arrangements.

To ensure the questionnaire was fit for purpose, we piloted it with several of the employers and experts we interviewed, and also with a small sample from the YouGov panel, before fully launching it. The results of this pilot did not show up any issues with the questionnaire and we are therefore reasonably confident that it enabled survey participants to describe what pension structures are in place within their organisation.

When interpreting the survey data, it should also be noted that the survey findings rely on self-reported data rather than administrative data. While some of the potential issues arising from relying on self-reported data, such as social desirability and cognitive biases, can be overcome by applying appropriate questioning techniques, we are aware that some of the survey topics are still open to these biases. We have highlighted in our findings when this might be the case.

Please note that due to rounding, there may be some differences when data points from tables and charts are combined. Finally, a note on sample sizes: small base sizes below 50 are shown in italics and starred.

Employer contexts

Employer pension contributions approaches are impacted by the broader economic and business context. It is a challenging operating environment for employers, many of whom have only recently made significant changes to meet their workplace pension duties under auto enrolment. Employee benefits approaches are increasingly taking into account employee financial wellbeing, facilitated in some places by developments in technology and market solutions.

There is clearly a wide diversity in employer circumstances. However, some common themes, relevant to employer pension contributions behaviours and decisions, emerged from the qualitative research. A brief summary of these is included here to help frame and contextualise the specific findings.

A challenging economic backdrop

This research was conducted in a period where the economic effects of the Covid-19 pandemic, the UK's exit from the European Union (Brexit), and inflation had created a challenging operating environment for employers. Since the end of the data collection period, these challenges have been further intensified by the impact of the war in Ukraine on energy and other costs – creating what some commentators have called a 'cost of doing business crisis', alongside the individual-level 'cost of living crisis'.

Brexit and the Covid pandemic both required considerable change in the business practices of many organisations and created a context of ongoing uncertainty. Against this backdrop, employers talked of the difficulty of planning ahead for, or investing in, the longer term. During the pandemic, employees in managerial, human resources and payroll roles have faced particular pressure and high workloads in communicating health and safety updates, managing the administration of government Covid furlough schemes, and supporting employees. Individuals in roles with responsibility for pensions contributions talked of personal and professional exhaustion as a result.

'Ninety percent of our members said they did furlough manually via spreadsheets. It was a proper pressure cooker in the last eighteen months.'

Industry body

In some sectors, this context has created what is often referred to as the 'Great Resignation.' Prompted by a high number of vacancies in some roles after Brexit, shifts in workers' priorities following the pandemic and low unemployment, competition for employees is high, and employers face challenges in growing and replacing the workforce.

'We are just not seeing the same number of applications coming through after Brexit. As a result, we need to offer more competitive renumeration packages.'

Employer, Under 250 employees

This, combined with cost-of-living pressures and low real terms wage growth, is leading to growing calls for higher wages and better conditions and benefits for workers, including through industrial action. Employers may weigh the cost of pension reward packages against the return on investment from other aspects of reward. While a competitive pension package could be part of a drive to attract and retain workers, employers and industry experts say they are often considered less attractive by employees than more immediate benefits such as pay rises and bonuses, especially in the current climate. A recent global study by PwC has found that an increase in pay is the main motivator for changing jobs: 72% of those surveyed said that this was their main reason for switching. [16]

Workplace pension evolution

In the last decade, employers have made significant investments of time and money in the implementation of auto enrolment. In particular, employers who previously did not offer a pension to their employees and therefore had to start from scratch, have had to put in place a workplace pension, communicate with their employees and set up systems and processes to manage identification and enrolment of eligible employees, salary deductions and contributions.

> **'Employers right now need to deal with the increased costs that auto enrolment brought – they still need to work this through.'**
>
> *Employee Benefit Consultant*

This administrative and cost 'fatigue' of auto enrolment means that some employers are reluctant to reopen the question of pension provision again.

At the other end of the spectrum, some employers have been working through the complex transition from a world where defined benefit (DB) pensions were a norm, to a world of defined contribution (DC) workplace pensions. This has usually involved workforce negotiations and demanding changes to administration systems. Other employers with existing pension schemes are moving from running their own pension schemes to master trust providers, and / or trying to consolidate multiple schemes.

> **'There's a big difference between post-2012 employers who wouldn't really be offering a pension if they weren't required to, and the pre-2012 employers who are paying more and who regard the pension as an overall renumeration package.'**
>
> *Industry body*

Growing awareness of the role of employers in supporting employee financial wellbeing

The pandemic and rising inflation are also raising awareness of employee financial wellbeing considerations. Employers are increasingly conscious of the impact that financial insecurity can have on their employees' physical and mental health and productivity at work. Recent research by Mercer found that, as a result of the pandemic, 36% of employers surveyed increased the provision of mental wellbeing support, and 32% increased the provision of financial wellbeing support. 7 in 10 of those who said that they introduced new wellbeing offerings expected these changes to stick.[17]

Many employers are looking at ways to support their employees with cost-of-living challenges, including by offering shorter-term focussed benefits such as payroll savings, loans, and shopping discounts and vouchers. Indeed, some employers are making one-off lump-sum cost-of-living payments to their employees.

[16] PwC, Global Workforce Hopes and Fears Survey (May 2022). **PwC's Global Workforce Hopes and Fears Survey 2022 | PwC**

[17] Mercer Marsh Benefits, UK Employee Benefits and Technology Trends Report (2022). **UK employee benefits and technology trends report | Mercer**

In our survey:

- 15% of employees work for an employer that offers payroll saving to all employees, with a further 7% working for an employer that offers this to some employees.
- 11% of employees work for an employer that offers salary advance or earned wage access to all employees, with a further 11% working for an employer that offers this to some employees.
- 12% of employees work for an employer that offers payroll or hardship loans to all employees, with a further 16% working for an employer that offers this to some employees.
- 22% employees work for an employer that offers shopping discounts or vouchers to all employees, with a further 11% working for an employer that offers this to some employees.

Consideration of employees' financial resilience within this context means some employers are wary of promoting employee pension contributions because of the impact on take-home pay. Some employers also feel that retirement saving is already covered at least to some extent by the work they have done to implement auto enrolment, and they therefore want to concentrate any new work on supporting nearer-term employee needs.

> **The more pressing life objectives people have like the increase in tax, National Insurance and the cost of living all puts pension contributions lower down the agenda.'**
>
> *Employee Benefit Consultant*

Developments in employee benefits experience and platforms

Evolutions in employee benefits platforms and services, particularly as a result of fintech innovation, are opening up new possibilities for pensions engagement, and benefits strategy and design.

Developments in open banking and open finance are facilitating the provision of smarter pension platforms by some pension administrators, providers and employee benefits consultants. These solutions may allow employees to see information about their different financial products in one place, use tools to explore different options and outcomes, and access more personalised financial information and education.

Some employers, particularly at the larger end and in professional and service sectors, are moving to a flexible benefits approach where employees are able to choose from a suite of options to make up their benefits package with the elements that are most relevant to them. This more personalised approach is facilitated by increasingly sophisticated flex-benefits platforms that can make it easier for employers to integrate different solutions in one place, to communicate with their employees about what is on offer, and to make sign-up easier through data integration and pre-population. In some cases, this can make pension contributions options more prominent, and may also allow employees to choose whether to put their reward 'budget' into additional pension contributions or towards other types of benefit such as different forms of saving, health plans or discount schemes.

> **'People want to manage their finances together, where pensions are just one constituent part. So, when you talk for example to younger people about their pension without the context of their current reality, which is of course getting on the housing ladder and managing debt, then you're in an ivory tower and you're not connecting in the correct way with your audience. You need to realise that for your employees, pension isn't the only fruit; it's a fruit bowl and we need a mix within that.'**
>
> *Employee Benefit Consultant*

Other fintech providers are enabling better payroll visibility for employees and smoother integration between payroll and other solutions, including pension providers, for employers. In some cases, these platforms allow employees greater flexibility in when they receive their pay and / or facilitate saving via payroll. They can also provide high-engagement touchpoints for financial information.

This landscape is evolving quickly, and although at the moment adoption is focused at the larger end of the employer spectrum, it has the potential to scale rapidly over the coming decade. Where workplace pensions may have been quite isolated previously, greater integration may prompt new opportunities for employee engagement in future.

Employer pension contribution levels

Auto enrolment has greatly broadened access to employer pension contributions, with many employers contributing more than the minimum amounts for their employees. Beyond the dominant default settings, there is a wide variety in contribution levels. Access to above-minimum employer pension contributions is unevenly distributed, with employees working for larger employers and employers with predominantly higher paid and higher skilled workforces more likely to be offered enhanced contributions.

UK employers are legally required to make a minimum contribution for eligible employees into their workplace pension, if the employee does not opt out. The minimum total pension contribution is 8% of qualifying earnings, with at least 3% coming from an employer contribution. Beyond this, meeting these minimum levels, employers can choose to structure their contribution levels how they want to.

Employers choose to enhance contributions beyond the minimum requirements in a range of different ways, including:

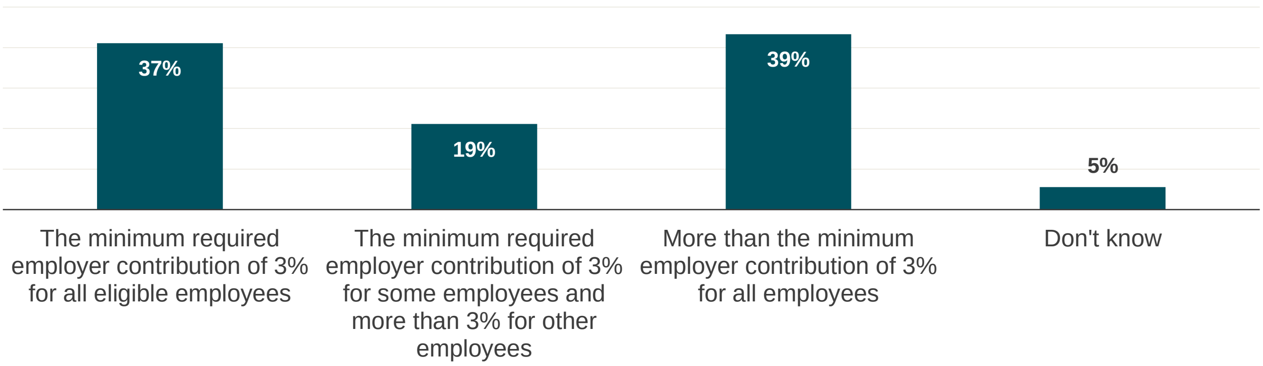
1. **Above-minimum contribution levels:** Employers can contribute more than 3% for some or all employees.
2. **Making pension contributions on all earnings:** Employers can calculate pensions contributions on all earnings, rather than just the band of qualifying earnings. Qualifying earnings are the minimum basis for calculating auto enrolment pension contributions. Qualifying earnings are all earnings between a lower and upper limit set by the government and reviewed each year. In 2022–2023, the lower limit is £6,240 and the upper limit is £50,270.
3. **Matching:** Employers can adopt a matching approach for some or all employees where an employee can get a higher employer pension contribution if they elect to contribute more themselves.

Employers can also choose to set different employer and employee contribution levels, including setting default levels above the minimums that are legally required.

The prevalence of enhanced employer contributions

Above-minimum contribution levels

Figure 2: Organisations offering minimum and above minimum employer contributions to eligible employees



Base: All (502) NB Data weighted by region, industry and employer size based on employment.
Question: For employees who are eligible for a workplace pension, which of the following does your organisation offer?

Almost 3 in 5 employers (58%) say they offer more than the minimum required employer contributions to some or all of their eligible employees, with almost 2 in 5 employers (39%) offering more than the minimum to all of their eligible employees.[18]

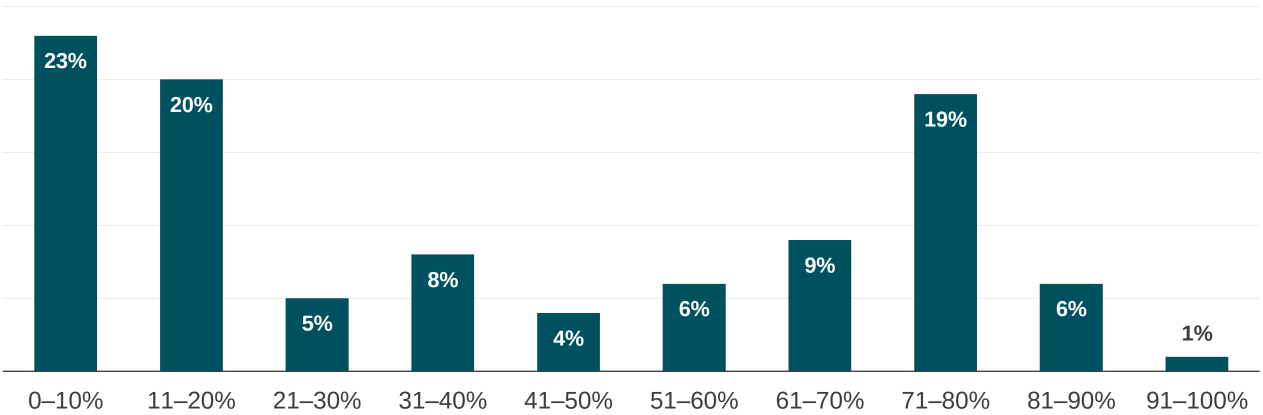
Nearly 2 in 5 employers (37%) say they offer the minimum 3% contribution to all their eligible employees[19], with a further 5% saying they don't know, and therefore likely to be also contributing at the default levels.

Of those who say that they do more than the minimum for some but not all their employees, a considerable proportion are doing this for just a minority of their employees.

When looking in greater detail at the proportion of employees to whom these employers offer above-minimum contributions, two patterns are apparent:

- Just over two fifths of these employers (43%) indicate that actual additional contributions only apply to up to a marginal 20% of their employees; and for more than half of this group, above-minimum employer contributions apply only for up to 10% of their employees.
- There are however around a quarter of employers (25%) who offer above minimum required contributions to a majority (over 70%) of their employees.

Figure 3: Percentage of eligible employees for which an organisation contributes more than 3%



Base: All who offer the minimum employer contribution to some eligible employees (78)
Question: For what percentage of your eligible employees does your organisation actually contribute more than 3%?

Making pension contributions on all earnings

There is a roughly even split between organisations that calculate pension contributions on qualifying earnings and on all earnings. Around 4 in 10 employers (39%) say that they calculate pension contributions on all earnings, and a similar proportion on qualifying earnings (42%).[20] It is worth noting that there were quite a high proportion of employers who said they did not know the answer to this question (19%), and are perhaps more likely to have outsourced their pension set up and therefore to be defaulted to contributing on qualifying earnings.

18 Unweighted data: 47% of respondents said they offer more than the minimum employer contribution to some or all of their eligible employees. 31% of respondents said they offer more than the minimum to *all* eligible employees.

19 Unweighted data: 48% of respondents said they offer the minimum required employer contribution of 3% to all eligible employees.

20 Unweighted data: 31% of respondents say that they calculate pension contributions on all earnings, and 50% on qualifying earnings.

Clearly, the decision to calculate pension contributions only on the minimum qualifying earnings is often based on affordability and minimising cost. But it is worth noting that the financial impact is not the only factor influencing employer approaches here. In some cases, using all earnings may be considered to be simpler – both in terms of payroll administration for the employer and also in terms of communication and comprehension for employees:

> **'"Simple" is a principle underpinning what we do – so people know what their pensionable pay is and so payroll is simpler to run. So, we pension from £0, not on £6–20k.'**
>
> *Employer, 5,000–29,999 employees*

Matching

Half of UK employers (49%) say they offer matched contributions, where the employer contributes more if the employee also increases their contribution, to at least some of their employees, with a third of employers (33%) offering this to all their employees.[21]

We also asked about take-up of matching within organisations who are offering this to their employees. Employers' estimates are that three fifths (62%) of their employees are taking up all of the match they are eligible for. It is also estimated by employers offering matching that almost one fifth (18%) of their eligible employees are making additional contributions themselves through payroll as well as maximising the employer match. However, also according to these estimates, nearly two fifths of employees (38%) who are being offered a match are leaving some or all of the additional employer contribution they are eligible for on the table. It should be noted here that is based on self-reported estimates rather than actual administrative data and so actual numbers on take-up could vary from the picture reported here. As discussed later in this report, it should also be noted that whilst matched contributions can be an effective motivation for some more engaged and more financially secure employees to increase their own contributions, for other employees this model is less effective.

Employers who offer matched contributions to only a subset of employees are more likely to report higher levels of take-up of the maximum match with employees also contributing more themselves through payroll.

Table 2: Percentage of eligible employees who contribute more to receive matched contributions, based on employer estimates

	Average % of employee take up within organisations that offer matched contributions to all workers	Average % of employee take up that offer matched contributions to some workers	Total average
Take up some of the match they are eligible for – specify	26.6	16.4	23.5
Take up all of the match they are eligible for – specify	46.1	38.8	43.9

[21] Unweighted data: 38% of respondents said they offer matched contributions to at least some of their employees, with 28% offering this to all their employees

	Average % of employee take up within organisations that offer matched contributions to all workers	Average % of employee take up that offer matched contributions to some workers	Total average
Take up all of the match they are eligible for and also contribute more themselves through payroll	14.6	27.0	18.4
Do not take up any matched contributions – specify	12.6	17.9	14.2

Base: Employers who offer matching to some or all of their employees (193)
Question: Roughly what percentage of your employees who are eligible for matched contributions from the employer if they contribute more actually take it up?

Matched contributions are more prevalent amongst employers with multiple schemes in place. This may perhaps suggest that the added complexity of administering multi-tiered contribution levels offered to different groups of employees is less off-putting to those who are used to working with multiple pension schemes, or simply that these employers have inherited or been unable to rationalise different approaches covering different parts of their workforce.

Multiple enhancements to employer pension contributions

Clearly, an employer can offer more than one of these three enhancements to employee pension contributions at once. Looking at these enhancements in combination we can see that:

- 23% of employees work in an organisation that offers none of these contribution enhancements to any or all employees.
- 30% work in an organisation that offers just one of these enhancements to some or all employees.
- 47% work in an organisation that offer two or three of these enhancements to some or all employees.

Organisations offering two or three enhancements at the same time are more likely to be larger, say they have mostly higher earners, and currently have, or have previously offered, a DB scheme.

Pension contribution levels

Base contribution levels

The Pensions Act 2008 specifies the total minimum contribution level of 8%, which includes a minimum employer contribution level of 3%. Beyond these baselines, employers are free to set their own contributions levels, including contributing more than 3% themselves, whether this requires employees to contribute more or not, and designing matching structures.

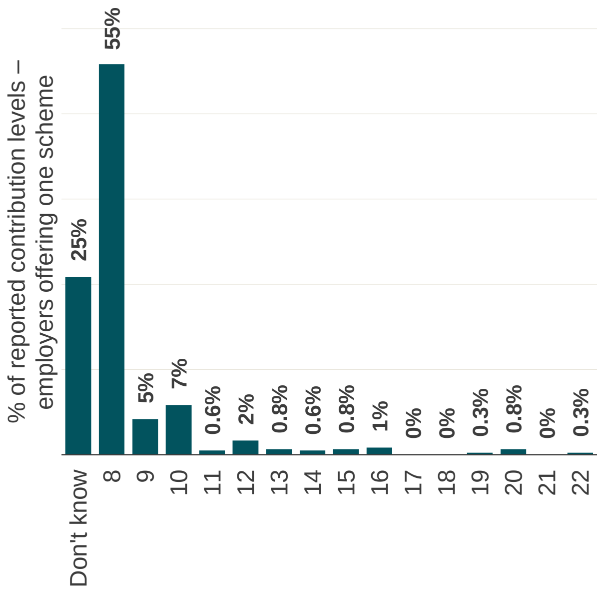
We asked employers to tell us for each scheme they have at their organisation, up to a maximum of three schemes, what the base default employer and employee contributions are as a percentage of pay, rounded to the nearest whole number.

Our survey results showed that most employers stick to the minimum combined contribution of 8% for their base contribution level. As shown in Figure 4, looking at employers offering only one scheme, 55%

say they are offering the minimum level as their contributions starting point, and a further 25% say they don't know.[22] Where the answer is 'don't know', organisations are also likely to be doing the minimum, for example because they just went with the default settings in their payroll software or pension provider set up, or because the set up was done for them by a third party such as an accountant, payroll bureau or bookkeeper. This suggests that over three quarters of employers with one scheme offer a combined 8% base contribution.

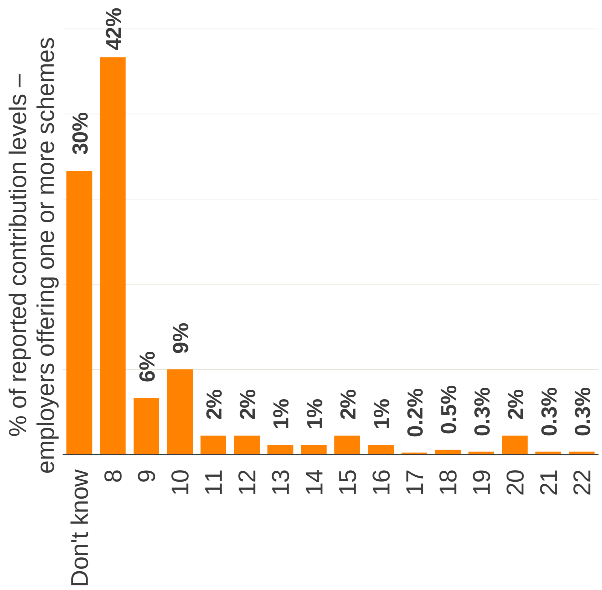
Figure 5 shows the stated contribution levels across all schemes reported on in the survey – a total of 662 different schemes. The 'don't know' answers here are higher because one respondent could say 'don't know' for more than one scheme. Here employers say that 42% of the schemes they reported on are offering the minimum level as their contributions starting point. For a further 30% of schemes the employer said they don't know the base contribution levels.

Figure 4: Total base combined contribution levels (employer + employee) as reported by employers offering 1 scheme[23]



Base: Employers offering one scheme (362)
Question: What are the base/default employer and employee contributions in this scheme as a percentage of pay?

Figure 5: Total base combined contribution levels (employer + employee) as reported by all employers



Base: All employers (502), survey respondents reported contributions information on a total of 662 different schemes.
Question: What are the base/default employer and employee contributions in this scheme as a percentage of pay?

Where employers are offering the minimum combined contribution of 8%, the vast majority of them are contributing the minimum 3% with the remaining 5% made up by the employee and tax relief. However, a minority of employers within this group are offering different contribution levels and still meeting the minimum requirements. For example, we see some employers offering a 4% and 4% structure, or a reverse 5% and 3% structure, where the employer provides more than the minimum and requires less of

[22] There were some complexities in counting the answers here. For example, we had to allow employers to enter the data in a way that made sense whether they were operating a relief at source or net pay scheme. For a detailed description of the analysis approach, please see the technical report.

[23] In both Figure 4 and Figure 5: Outliers of 80% plus have been removed (n = 10). Contributions within the range of 4% to 7% have been grouped as 8%. Both of these answers are likely a result of misinterpreting the question, not accurately allocating for relief at source or not feeling able to describe contribution levels in this format.

the employee. We also see a small number offering an 8% non-contributory structure where the employer provides the whole contribution, and the employee is not required to contribute at all.

After a 3% employer contribution, the most common employer contribution levels are 5% and 4%. Only 13% of employers contribute 6% or more and only 5% of employers contribute 10% or more.

Some relatively common base contribution combinations beyond those already mentioned included:

› **Equal round number contributions:** The most prevalent of these was 5% employer / 5% employee, but 6/6, 7/7 and 8/8 combinations were also popular.
› **1% above the minimums for both employer and employee:** a 4% employer and 6% employee contribution.
› **Employer contribution at double the employee contribution:** a 6% employer and 3% employee contribution combination was quite common, and we also saw 8/4 and 10/5.

Beyond these combinations there were a wide range of different pairings of employer and employee contributions levels, with almost every possible permutation present at least once.

There is little official guidance for employers on this subject, beyond the Pensions Act 2008 stipulation that the contribution be at least 8% of qualifying earnings with at least 3% coming from the employer. Some contributions structures may have originated pre-auto enrolment, and others use the facility to certify that a scheme is compliant while using different base contributions levels – for example where contributions are made on total pay and not just qualifying earnings.[24]

One area of ambiguity is that there is no guidance on what level of employee contribution can be required. Some default structures put in place by employers, including some of the common patterns listed above, offer a more generous employer contribution (above 3%) but require a higher than minimum employee contribution at the same time. For example, a 12% employer / 8% employee base structure offers the employee four times the minimum employer contribution but requires them to contribute above the employee minimum level to get this. There are also a small number of examples of an employer using default rates that are more generous than the minimum but that require a higher employee contribution than their own employer contribution as a default starting point – for example, a 5% employer contribution paired with an 8% employee contribution in one case, and a 10% employer contribution combined with a 12% employee contribution in another. Whilst these structures are both compliant and generous in terms of employer contributions, they may be excluding employees who can't afford above-minimum contributions for getting any pension contributions at all. We did not see any evidence in this research of an employer pushing employee minimum contributions high to promote opt out, but this is, in theory possible.[25] Further research in this area to understand the impacts of these structures on opt-out levels and employee outcomes would be helpful.

It is also worth noting that relatively few employers are currently offering combined employer and employee base contributions levels that meet the 12% of pay being called for by several industry and policy organisations. Only 8% of employers with one scheme, and 11% of all schemes reported on by survey respondents, currently meet the 12% or above mark for total combined employer and employee contributions.

24 See paragraphs 90–99 in The Pensions Regulator's Automatic enrolment detailed guidance for employers no. 4 **https://www.thepensionsregulator.gov.uk/en/document-library/automatic-enrolment-detailed-guidance/4-pension-schemes-under-the-employer-duties**

25 There is a power in the Pensions Act 2008, section 16(3)(b), that would allow the Secretary of State, by regulation, to decide that excessive contributions could mean that a pension scheme no longer qualifies to be used for automatic enrolment, we are not aware of this power having been exercised.

Maximum contribution levels

As well as asking employers to tell us their base or default scheme contribution levels, we asked them whether there were any additional levels above this in their scheme. Around 3 in 20 employers offered a higher contribution level above the default level for their scheme.[26] In 44% of these cases the difference between the minimum and maximum combined employer and employee contribution levels is 10% or more.

Differences in contribution levels by employer type

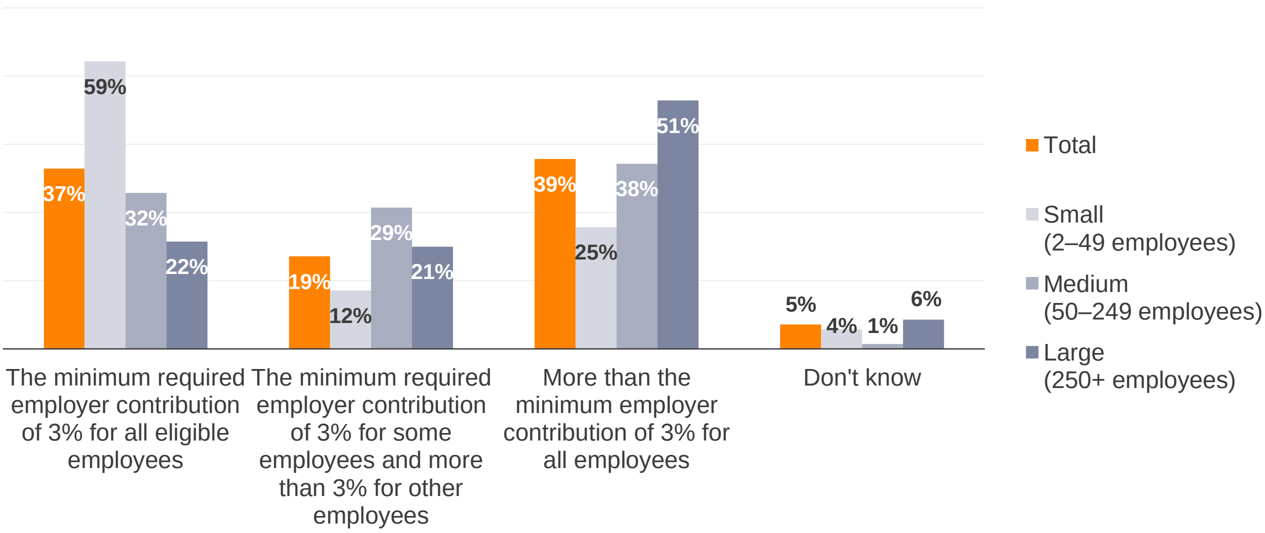
Auto enrolment has greatly broadened access to workplace pensions schemes – and to employer contributions. Indeed, many employers are contributing more than the minimum amounts for some or all of their employees. Still, there are significant variations in the distribution of above-minimum contributions by employer type.

Employer size

The most striking differences in enhanced pension contributions by employer type were by size of employer, defined in terms of number of employees. Here we used the established classifications of ‘small’ for an employer with fewer than 50 employees, ‘medium’ for those with 50–249 employees and ‘large’ for those with 250 or more employees. We did break ‘small’ down further to look at micro employers with five or fewer employees but did not observe reportable differences here so have included micro employers within the small employer group.

Larger companies are more likely to offer more than the minimum 3% employer contribution to their employees. Around half of large employers (51%) offer employer contributions above 3% for all their employees, compared to only a quarter (25%) of small organisations.

Figure 6: Level of employer contributions offered to some or all eligible employees by employer size



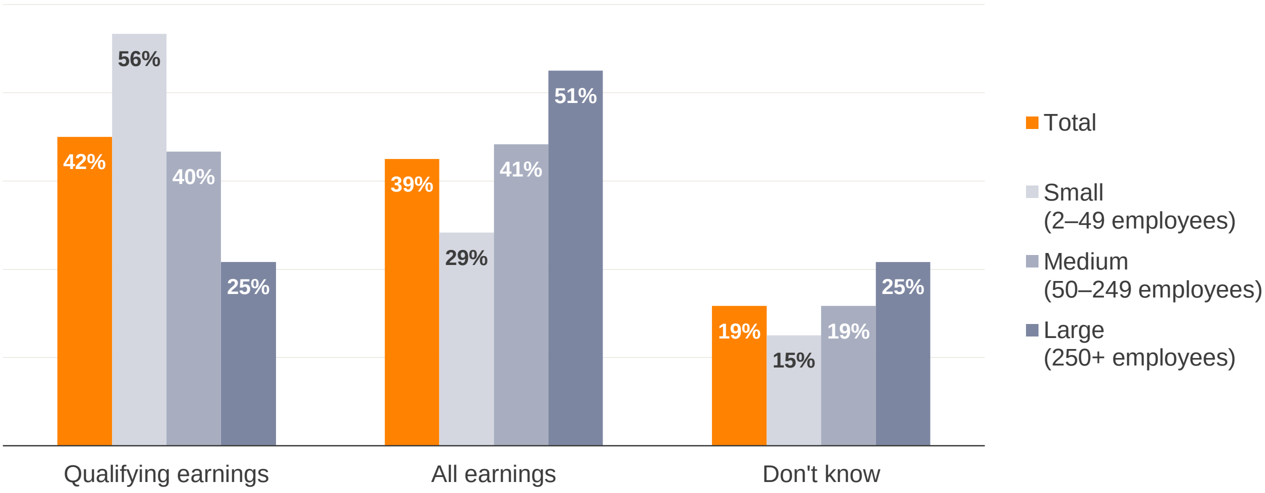
Base: All (502); Small (313); Medium (102); Large (87). NB ‘All employer’ data weighted by region, industry and employer size based on employment. ‘Small’, ‘Medium’ and ‘Large’ employer data weighted by region and industry.

Question: For employees who are eligible for a workplace pension, which of the following does your organisation offer?

[26] We excluded “Don’t knows” from this question which meant that the sample was based on 70 employers.

Larger companies were also more likely to offer employer contributions on all earnings rather than on the minimum band of qualifying earnings. Within the group of employers who are operating a single defined contribution (DC) scheme without any sub sections (n=377), we found that large organisations (51%) are more likely to offer employer contributions on all qualified earnings.

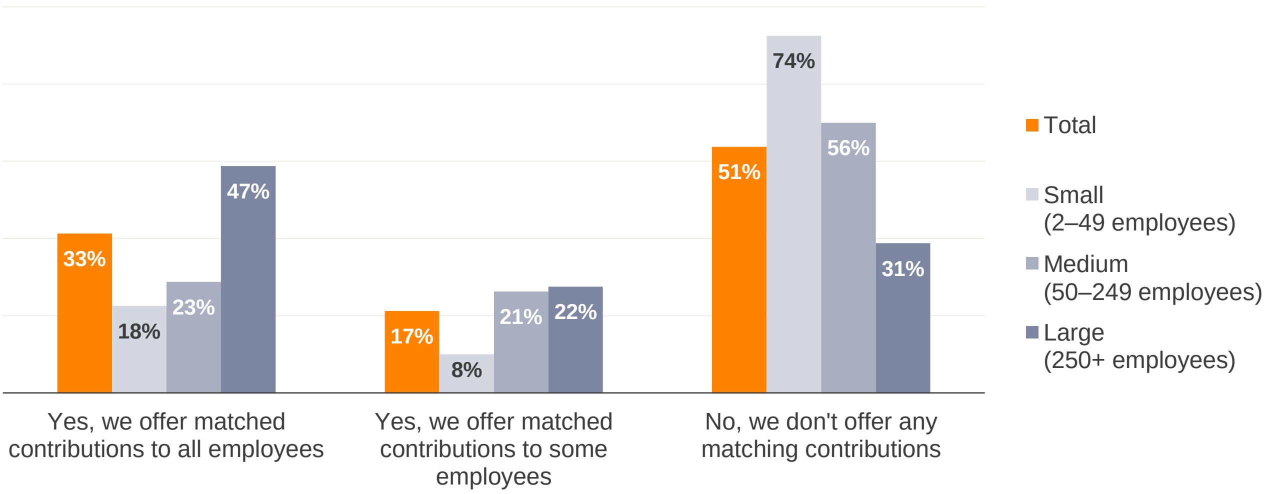
Figure 7: Approach to calculating pension contributions by employer size



Base: All (502); Small (313); Medium (102); Large (87) NB 'All employer' data weighted by region, industry and employer size based on employment. 'Small', 'Medium' and 'Large' employer data weighted by region and industry.
Question: Which of the following do you calculate pension contributions on?

Matched contributions are also more likely to be offered to employees working for larger organisations. 47% of larger employers offer matched contribution to all employees, compared with 23% of medium-sized employers and 18% of small employers.

Figure 8: Employers offering matched contributions to some or all employees, by employer size



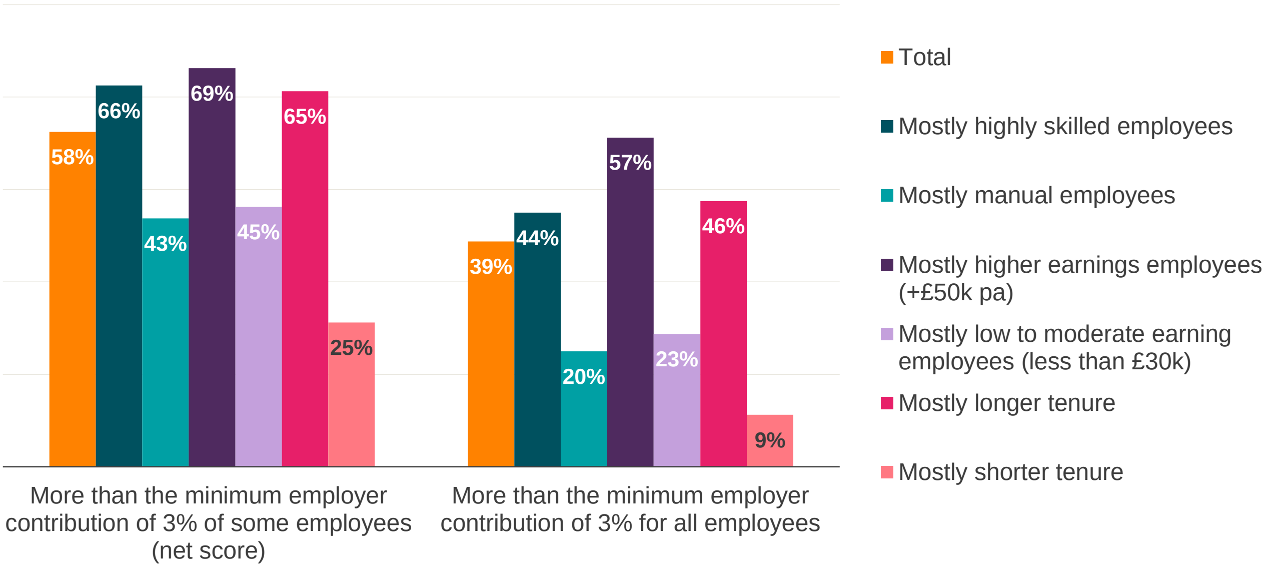
Base: All (502); Small (313); Medium (102); Large (87) NB 'All employer' data weighted by region, industry and employer size based on employment. 'Small', 'Medium' and 'Large' employer data weighted by region and industry.
Question: Do you offer matched contributions to any of your employees (by company size)?

These three factors can act as a triple boost to employer pension contributions for employees working for larger companies.

Nature of workforce

Employers with predominantly highly skilled and salaried employees, higher earners and those with longer tenure are more likely to offer above-minimum contributions. Whereas 4 in 10 employers (39%) offer more than the minimum contributions for all their employees, this drops to around 2 in 10 of those who say they have mostly manual employees and mostly low to moderate earning employees. This drops further still to around *1 in 10** of those whose employees have mostly shorter tenure. We also see the same pattern if we include those who do more than the minimum for some but not all their employees.

Figure 9: Employers offering more than the minimum 3% contribution to some or all eligible employees, by employee tenure, earnings and skill sets



Base: All (502); Mostly highly skilled employees (157); Mostly manual employees (102); Mostly higher earning employees *(35)**; Mostly low to moderate earning employees (202); Mostly longer tenure (162); Mostly shorter tenure *(19)*.* NB 'All employer' data weighted by region, industry and employer size based on employment.

Question: For employees who are eligible for a workplace pension, which of the following does your organisation offer?

Employers with predominantly manual employees and predominantly lower earners are also more likely to calculate pension contributions on qualifying earnings rather than all earnings. 64% of employers with mostly manual workers and 55% of employers with mostly lower earners work on a qualifying earnings basis compared with 42% of all employers. 52% of employers with mostly highly skilled workers and 64% of those with mostly higher earners use all earnings compared with 39% of all employers.

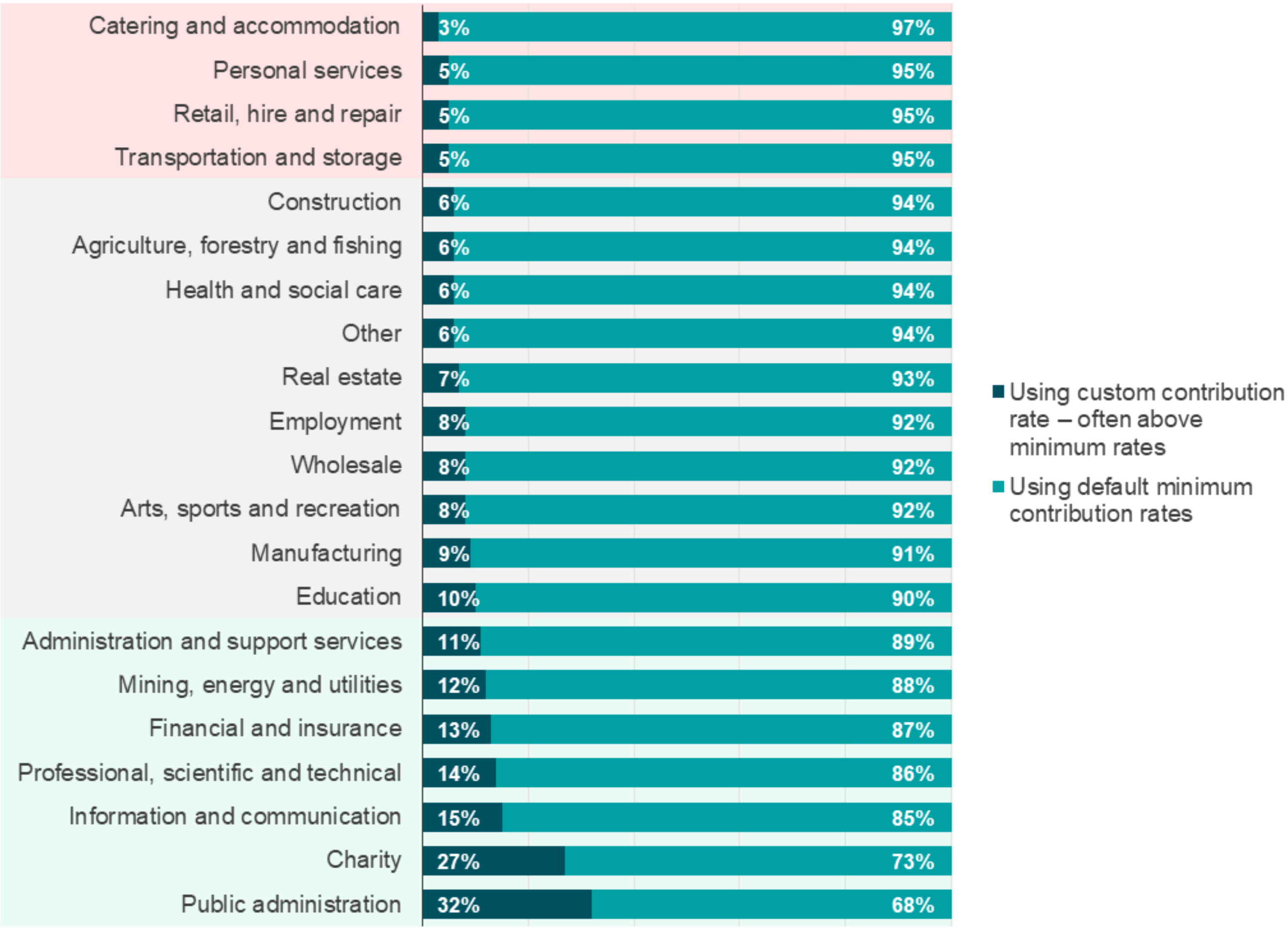
Industry

Survey sample sizes when broken out by industry classification are too small for robust analysis. However, we can see indicatively that industries with lower-paid employees, including accommodation and food service, and transportation and storage, are more likely to pay minimum employer contributions for all employees. Industries with higher paid employees, such as professional, scientific and technical industries are more likely to pay above-minimum contributions for all their employees.

These patterns are reflected in the analysis of Nest administrative data. Although Nest employers are not representative of all UK employers, Nest has, on average, 450–500,000 employers contributing every month and so coverage is good and sample sizes here are much larger than in the survey. It's important to note here that for some employers Nest is only one of their workplace pension schemes, so they may be doing minimum contributions in their Nest scheme and higher contributions in one or more other schemes. For further details on this analysis please see the Appendix.

Figure 10 below shows the proportions of Nest employers in each industry who have used the default contribution settings or who have set up custom contribution settings, meaning in most cases that they are contributing more than minimum levels for at least some employees. Sectors with lower rates of custom contribution levels amongst Nest employers are catering and accommodation; personal services; retail, hire and repair; and transportation and storage. Sectors with higher rates of custom contribution rates include public administration; charity; information and communication; professional, scientific and technical; and financial and insurance.

Figure 10: % of Nest employers setting up custom or using default contribution rates in their Nest workplace pension by industry



Low: 1% – 5% of all Nest employers in this industry category have a contribution level above the minimum levels.
Medium: 6% – 10% of Nest employers in this industry category have a contribution level above the minimum levels.
High: 11% – 32% of Nest employers in this industry category have a contribution level above the minimum levels.

Pension contribution models

A range of different contribution models are used by employers. Whilst most employers have a uniform model for all employees, some differentiate between employees on the basis of seniority or other factors, some have multiple arrangements because of historical obligations, and some use a matching model. Dominant pension models target higher contributions at those who are likely to be more financially secure and confident.

Some employers offer the same pension contributions to all their employees. Other employers offer different contributions to different groups of employees.

Pensions contributions models are coming under greater scrutiny as part of a broader push for equality and reaction against unfair pay structures, in particular disproportionate executive pay. The UK Corporate Governance Code (2018) states that 'The pension contribution rates for executive directors, or payments in lieu, should be aligned with those available to the workforce. The pension consequences and associated costs of basic salary increases and any other changes in pensionable remuneration, or contribution rates, particularly for directors close to retirement, should be carefully considered when compared with workforce arrangements.'[27] The Investment Association's Good Stewardship Guide (2019) also calls for fair pensions, stating that 'if the majority of the workforce get an 8% pension contribution, it is unacceptable for board directors to be awarded much higher contributions in addition to their pay, bonus and incentive packages. New remuneration policies should state that any new executive director will have their pension contributions set in line with the majority of the workforce and pension contributions to existing directors should be reduced over time.'[28] The Investment Association will 'red label' businesses that do not meet these standards.

Uniform models

Around 7 in 10 employers (69%) operate only one scheme for all their employees,[29] and the vast majority of these employers (91%) treat all employees the same within this scheme.

One reason for taking this approach is a desire for simplicity and ease of administration but having a uniform approach may also be motivated by a desire for fairness and equality across the workforce regardless of role or pay.

> **'Everybody gets the same – that fits with our ethos and culture. We are one business, and the pension is the same for all.'**
>
> *Employer, 5,000–29,999 employees*

It's worth saying that some employers we spoke to with more complex and differentiated arrangements would like to be able to move to a more uniform approach but feel unable to do this because of a range of barriers including the administration involved and the complexity of negotiating a transition with employees and unions. It is perhaps easier for a younger organisation to take a uniform approach – indeed 'if I could

27 Financial Reporting Council: The UK Corporate Governance Code (2018), see section on Remuneration, paragraph 38: **https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF**

28 The Investment Association: Good Stewardship Guide (2019): **https://www.theia.org/sites/default/files/2019-04/20190325-goodstewardshipguide2019.pdf**

29 Unweighted data: 80% of respondents said they operate only one scheme for all employees.

start from scratch' was a phrase we quite often heard from employers who wished a clean slate was possible. It is possible that external pressure from investors and broader society may drive more employers to overcome these barriers and adopt a more uniform approach in future.

Differentiated models

About 1 in 5 employers (19%) operate two schemes and 1 in 10 employers (12%) operate more than two schemes.[30]

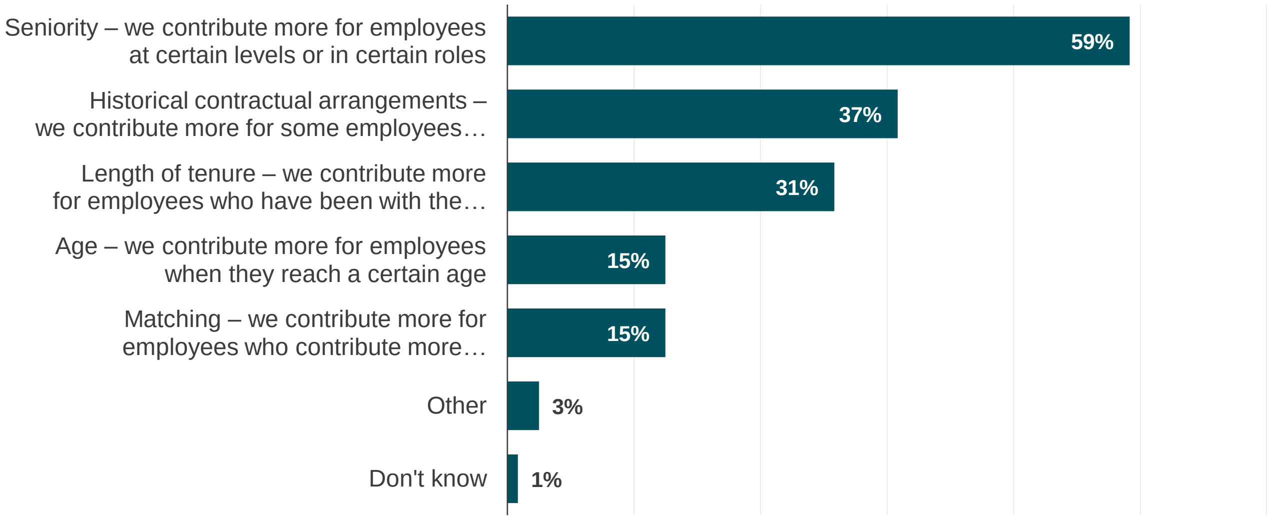
A common pattern here is where an employer had a scheme in place already before auto enrolment for some of their workforce and brought in a different scheme to meet their auto enrolment obligations for employees who were not previously covered. The 'auto enrolment scheme' is often used for employees in lower-paid roles or with shorter tenure. In the survey we asked respondents to label their different pension schemes and the (informal) descriptors given bring the differences between schemes to life. For example:

- 'Directors' and 'Everyone Else'
- 'Directors', 'Middle Rank' and 'Lower Rank'
- 'Management' and 'Workforce
- 'Contracted' and 'Zero Hours'
- '3% employer' and '5% employer'

'Our hourly-paid employees are in one scheme. Our salaried employees are in another. Both start on 4% and 4%. There are two enhanced levels for salaried employees, to 4.5% employer and 3.5% employee after 4 years' service and to 8.5% employer and 1.5% employee for directors and above.'

Employer, 30,000+ employees

Figure 11: Reasons why organisations contribute more than the minimum required to some employees' pensions



Base: All whose organisation contributes more than the minimum required to some employees' pensions (83)
Question: For which categories does your organisation contribute more than the minimum required to some employees' pensions? Select all that apply.

[30] Unweighted data: 15% of respondents said they operate 2 schemes. 5% said they operate more than 2 schemes.

Of the employers who offer higher than the minimum contributions for some but not all of their employees, the most common reason for doing this was seniority, where a higher contribution is made by the employer for employees at certain levels or in certain roles. Around 3 in 5 employers (59%), who are doing more than the minimum for some but not all of their employees, base eligibility for additional employer contributions on holding certain levels or roles within the organisation.

For just under 2 in 5 (37%) of employers who offer above-minimum employer contributions to a select group of employees, the need to honour historical contractual arrangements are a contributing factor. This may be because of negotiations as part of a move away from a defined benefit (DB) offer, or for employees who join the organisation under a ‘TUPE’ transfer.[31]

Tenure-based approaches are another prevalent reason for offering higher contributions to different employee groups within an organisation, with just under a third of employers (31%) saying this was a reason for differentiation.

A less prominent eligibility factor is age, though it is still worth noting that about 1 in 8 (15%) of employers offering above-minimum employer contributions to only some of their employees base this on reaching a certain age.

Matched contribution models

One third of employers (33%) offer matched contributions to all their employees, with a further 17% offering matching to some of their employees.[32]

In this model, employers contribute more for their employees if employees also increase their contributions, up to a ceiling. Beyond the ceiling, employees can usually make additional contributions themselves, but without the employer match continuing. Matching structures can be designed in different ways:

- Some structures offer equal matching – for example the first tier could be 3% employer / 5% employee, with the option to elect to move to a second tier at 4% employer / 6% employee or a third tier at 5% employer / 7% employee.
- Some structures offer double matching – for example if the first tier was 3% employer / 5% employee, the second tier would be at 5% employer / 6% employee and the third tier at 7% employer / 7% employee.
- Some structures reported had a mixture of these approaches with tiers going up in variable increments, sometimes by 1%, sometimes by 2%, sometimes by 0.5%.
- Some structures had just one additional tier above the starting point, others had multiple tiers.

In some cases, employers had tried to set matching levels that were simple and intuitive, but in other cases they admitted there seemed to be no logic to the levels and increments in place.

We heard different theories behind matching structures, including that they encourage employee pension engagement, and that they reward people who care about pension saving.

However, there are limitations to this approach. In order to take advantage of the enhanced employer contribution, employees need to be able to afford to save more themselves, so additional contributions are not accessible to employees with lower disposable income.

31 TUPE stands for Transfer of Undertakings (Protection of Employment). A 'TUPE transfer' happens when: an organisation, or part of it, is transferred from one employer to another for example under an acquisition or when one company takes over a contract from another. TUPE regulations protect employee rights in these circumstances.

32 Unweighted data: 28% of respondents said they offer matched contributions to all employees. 11% said they offer matched contributions to some employees.

'I don't think it's fair on those who don't contribute more. I'd be worried about those who can't contribute more. It encourages them to save but it might be to the detriment of their living standards now. It's almost discriminatory to those who, for example, don't have a mortgage and are saving for one.'

Employer, Under 250 employees

'It would increase distributional differences between employees at different earning levels. 5% is already a big ask for many lower income employees.'

Employer, 30,000+ employees

Additionally, studies have shown that employees who actively sign up to this kind of saving incentive are more likely to be generally more financially capable and confident. For example, research by Raj Chetty et al found that approximately 15% of individuals are 'active savers' who respond to subsidies, whereas 85% of individuals are 'passive savers' who do not respond to subsidies but instead are 'heavily influenced by automatic contributions made on their behalf'. Further, '"active savers" […] tend to be financially sophisticated individuals who plan for retirement.' [33] This contribution model rewards employees who are more financially confident and can afford to contribute more. Indeed, some employers who offer matched contributions to some but not all of their employees are actively targeting their matched contribution budget to those who are in higher earning roles.

'Matches are kind of a funny policy instrument. The employer is offering matches because they are somewhat concerned about outcomes, but it's regressive – you get the people who are already saving a lot. The people you are really worried about are left out in the cold – they are the least responsive.'

Expert interview

Non-contributory models

There were a small number of examples of employers offering a non-contributory pension model, where the employee gets an employer contribution without needing to contribute anything themselves. Examples of this included a structure where the employer puts in 10% automatically without the employee needing to contribute, and another where the employer contributes 15% with no employee contribution required, but with the option to increase that contribution by 3% if the employee also contributes 3%. Reflecting on this structure, there was a recognition that, whilst generous, this model did not engage employees in their retirement saving, and also that there could be a missed opportunity where the contributions could be amplified if the employee was still required to make a contribution on top of the employer contribution.

[33] Chetty et al Active vs. Passive Decisions and Crowd-out in Retirement Savings Accounts: Evidence from Denmark

> **‘Maybe there isn’t enough onus on the individual to contribute. It’s great to have a level like this if the company can afford it, but do people value the benefit enough? It takes away responsibility...’**
>
> *Employer, 1000–4999 employees*

Salary sacrifice approaches

A salary sacrifice arrangement is a tax-efficient way for an employer to arrange contributions to a workplace pension, enabling both the employer and employees to pay lower National Insurance contributions. Employees agree to give up (sacrifice) part of their salary in return for a benefit – in this case, pension contributions. The employer reduces the employee’s salary by the amount of their pension contributions. The employer then pays this amount, plus their employer contribution into the employee’s pension. As a result, both the employee and the employer pay less National Insurance on the lower salary.

Depending on how the employer structures the scheme, the employee National Insurance saving can be received as an increase in take-home pay, or as an increased pension contribution. The employer may also decide to share some or all of their employer National Insurance saving with the employee, either as a boost to their pension contributions, as a salary boost, or in some other way. For example, one employer interviewed used the saving to put in place life insurance for their employees.

> **‘We do salsac for most people and we share some of the [employer] savings so that any contributions are enhanced. For example, £100 becomes £106.’**
>
> *Employer, 30,000+ employees*

> **‘We implemented salary sacrifice just before Covid. Our pension provider mentioned there would be a saving in National Insurance. Some of the savings we made we used to purchase life insurance as that is what our employees were asking for.’**
>
> *Employer, Under 250 employees*

Salary sacrifice is a contractual agreement. Putting in place a salary sacrifice approach therefore involves a change to an employee’s contract of employment that existing employees need to agree to.

Salary sacrifice may not be appropriate for all employees:

› It may affect entitlement to state benefits. Employees could qualify for a reduced benefit, or even lose a benefit altogether if their earnings go below the government’s lower earnings limit for earnings-related benefits because of salary sacrifice. Additionally, if lower earnings result in employees paying lower National Insurance contributions, they could build up lower entitlement to contribution-based benefits such as the State Pension.

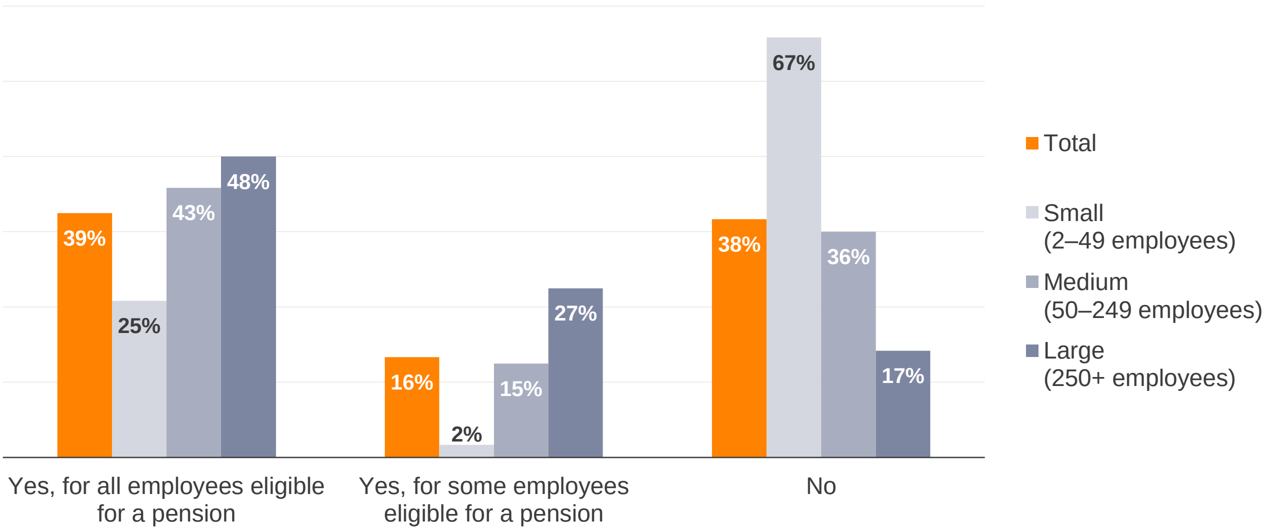
› Employees cannot be included in a salary sacrifice arrangement if it would take them below the National Minimum Wage. Employers need to monitor this on an ongoing basis.

These complexities mean that employers, particularly smaller employers, may be put off implementing a salary sacrifice approach.

Over half of employers (55%) say that they offer a salary sacrifice arrangement to at least some of their employees with around 2 in 5 employers (39%) saying they offer this to all employees.[34]

Employees of larger organisations are more likely to be offered salary sacrifice, with 48% offering this to their entire workforce, and a further 27% offering it to some of their employees. Two thirds (67%) of smaller employers indicate they do not offer salary sacrifice to any of their employees, compared to 17% of larger organisations.

Figure 12: Organisations offering a salary sacrifice pension arrangement for some or all employees eligible for a pension



Note: Totals do not add up to 100% due to the exclusion of "Don't know" answers.
Base: All (502); Small (313); Medium (102); Large (87). NB 'All employer' data weighted by region, industry and employer size based on employment. 'Small', 'Medium' and 'Large' employer data weighted by region and industry.
Question: Does your organisation offer a salary sacrifice pension arrangement for employees eligible for a pension?

Salary sacrifice is more likely to be offered by employers who:

- offer more than the minimum contributions to some (64%) or all of their employees (75%)
- calculate pensions contributions on all earnings rather than qualifying earnings (71%)
- currently or have previously offered a DB scheme (77%)
- say they have mostly medium (68%) or higher (81%) earners
- have a developed benefit offering (93%) or offer financial wellbeing focused benefits (65%).[35]

As such, salary sacrifice is more likely to be offered by employers who are enhancing pension contributions in other ways and who have greater technical expertise and confidence, or are advised.

34 As elsewhere, this data is weighted to employer size by employment. In the unweighted data, 38% of respondents said they offer a salary sacrifice arrangement to some or all employees eligible for a pension. 29% said they offer this for all employees eligible for a pension.

35 Source: **Survey question,** 'Which of the following benefits, if any, does your organisation offer to employees?'
Developed benefit offering are employers who reported offering 9 or more out of 14 listed employee benefits to some or all of their employees.
Financial wellbeing benefits are employers who reported offering 1 of the 3 listed financial benefits to some or all of their employees.
Please see technical report for more detail on the benefits included in the survey: **https://www.nestinsight.org.uk/wp-content/uploads/2022/09/Employer-pension-contributions-in-the-UK-technical-report.pdf**

Case studies: employer pension contribution model and levels where employers are offering more than the minimum contributions levels for some or all employees

Examples of employers where everyone is treated equally:

Employer A

Employer A has one contribution structure in place, offering an **above-minimum rate** for **all their employees** where the employer contributes **10%** as long as employees make their minimum contribution level of **5%**.

The maximum total contribution is therefore **15%**.

Employer B

Employer B's **default pension structure offers above-minimum** employer contribution whereby employees receive a **9%** employer contribution when they contribute **3%**.

An **escalating match** is offered for every additional percentage employees contribute, to a **maximum 15% employer** contribution for which the employee needs to contribute **6%**, bringing the maximum total contribution of **21%**.

Examples of employers with differentiated approaches in place:

Employer C

Employer C has two structures in place, offering:

- A **minimum rate** of **8%** with a **3%** employer contribution **to the majority of their employees**
- An above-minimum employer contribution of **5% based on seniority**, with an employee contribution of **5%,** bringing the maximum total contribution to **10%**.

Employer D

Employer D has two structures in place, offering:

- A **minimum rate** of **8%** with a **3%** employer contribution **to everyone**
- A **6% employer contribution** when employees contribute an additional **1%**, bringing maximum total contribution to **12%**. This is a **tenure-based match**, offered to employees who have worked for the organisation for two years or more.

Employer E

Employer E places employees automatically in an **above-minimum default** employer contribution rate of **6%** if employees contribute **6%**, meaning employees automatically make total contributions of **12%** when they don't opt out. Employees have the choice to opt down to minimum levels if they want to.

A **seniority-based** scheme is offered to employees in certain roles with an above-minimum employer contribution of **10%**, for which **no employee contribution** is required.

Employer F

Employer F offers an **above-minimum employer contribution** of **6%**, where employees have to contribute **3%**.

Matching is offered for every additional percentage employees contribute, to a maximum employer contribution of **10%**, bringing the **maximum total contribution** to **17%**.

There is **one additional matching tier** with an employer contribution of **11%** when employees contribute **9.5%**, which is a **historical scheme** offered only to employees who previously took this up when this was part of the offering.

Employer G

Employer G offers **minimum contributions as a default** to most employers in the organisation. **Pay grade and tenure-based** enhanced matching options of **5% or 6%** employer contribution is offered to those who make an employee contribution of **5% or 6%**, bringing the maximum total contribution to **12%**.

There is a further enhanced offering for those in the **top 3 pay grades** where the employer contributes an additional **5, 10 and 15%**. Employees don't need to contribute themselves to qualify for this.

Employer H

Employer H offers a **14%** non-contributory employer contribution, where **employees do not have to make a contribution**.

Matching is offered for employees who make a **2%** contribution, which provides them with an **additional 2%** employer contribution, bringing the maximum total contributions up to **18%**.

Higher earners who are close to tax limits have the option to **flex down** and receive a **cash alternative**.

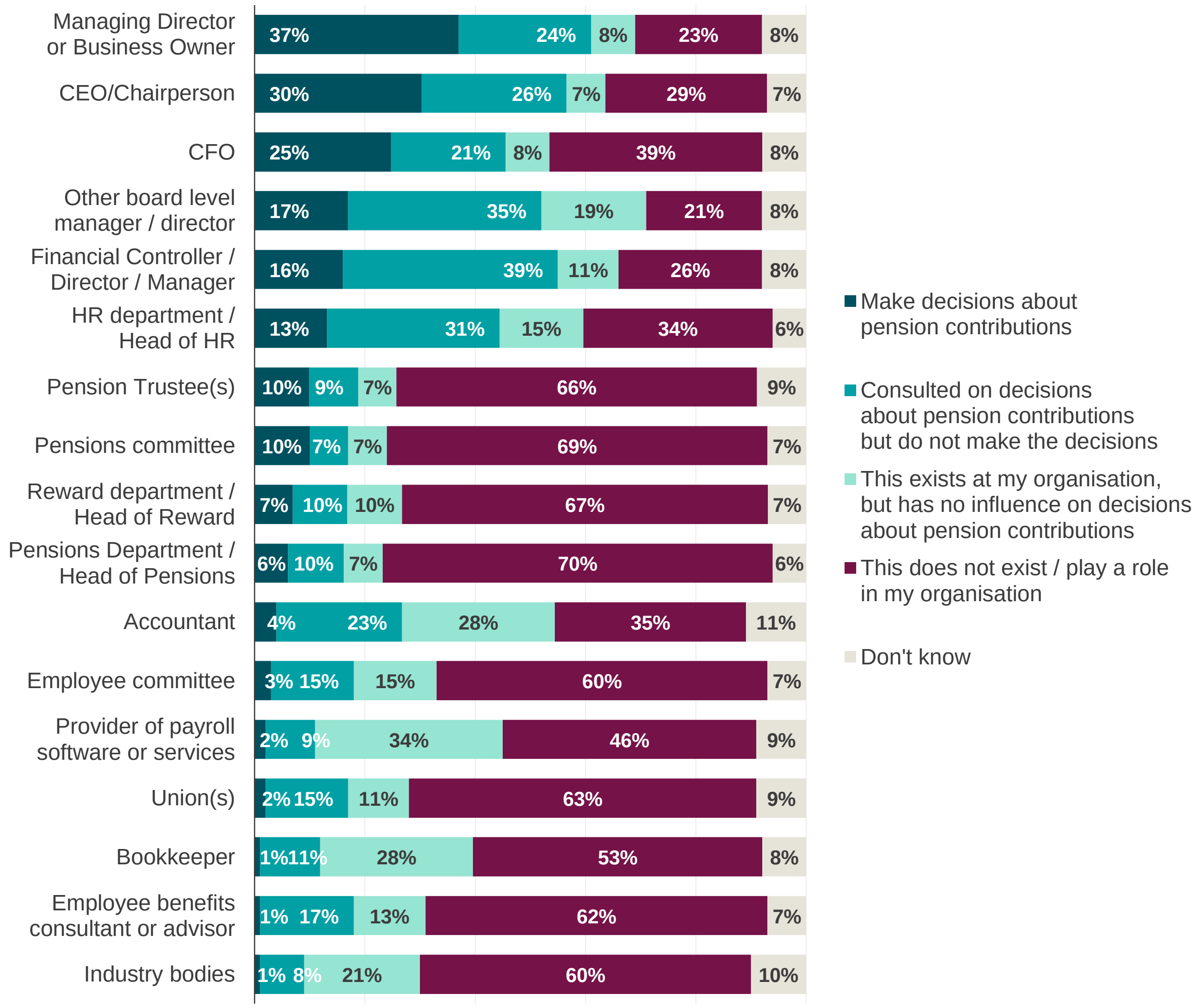
Employer pension contributions decision making

Employer pension contribution levels and models are often driven by defaults and norms rather than by a strategic decision-making process. Few employers consider retirement outcomes or adequacy in setting contribution levels.

Decision makers and influencers

Responsibility for decisions about pension contribution levels lies predominantly with the managing director or business owner for most small employers. Larger organisations are more likely to have dedicated Human Resources (HR), pension and rewards departments who are key decision makers alongside executives and senior management.

Figure 13: Extent of stakeholder involvement in the decision-making process for determining pensions contributions levels



	Small (2–49 employees)	Medium (50–249 employees)	Large (250+ employees)
Managing Director or Business Owner	**67%**	**37%**	15%
CEO/Chairperson	28%	25%	34%
CFO	12%	22%	**36%**
Other board level manager / director	19%	18%	15%
Financial Controller / Director / Manager	12%	20%	18%
HR department / Head of HR	3%	6%	22%
Pension Trustee(s)	2%	1%	18%
Pensions committee	1%	3%	19%
Reward department / Head of Reward	1%	1%	13%
Pensions Department / Head of Pensions	0%	1%	13%
Accountant	3%	3%	4%
Employee committee	1%	2%	6%
Provider of payroll software or services	0%	–	4%
Union(s)	–	1%	4%
Bookkeeper	2%	1%	1%
Employee benefits consultant or advisor	1%	1%	2%
Industry bodies	–	3%	2%

Base: All (502); Small (313); Medium (102); Large (87) NB ‘All employer’ data weighted by region, industry and employer size based on employment. ‘Small’, ‘Medium’ and ‘Large’ employer data weighted by region and industry.
Question: To what extent are the following involved in the decision-making process for determining pensions contributions levels in your organisation?
Notes: **Highest %** per group

Accountants also play an important advisory role for employers. For just over a quarter of organisations (26%), accountants have some influence, although for the majority (23%) their role is advisory, rather than as a decision maker.

For many organisations, there is no clearly defined pension strategy that has informed the pension arrangements in place. Our research has found that there are many factors, some of them intentional and some of them a product of circumstance, that have contributed to what employees are offered.

In some cases, pensions contributions levels have been set with minimal decision making involved, or in some cases without there being a decision at all. At the other end of the spectrum, the process can be complex and involve multiple inputs and stakeholders.

Case studies: a range of different decision-making approaches

Employer A: a small professional services business

Pensions contributions levels were covered briefly in one of the early meetings when the company was first starting out. The founder remembers that their accountant recommended doing 5% employer and 5% employee contributions because it is simple and ‘a bit above the minimum requirement’.

“I remember it was a five-minute agenda item early on. The accountant recommended we go for 5 and 5, and we agreed to go with that.”

The founder knew little about pensions and did not have a pension himself. He wanted to look after employees and agreed with this proposal on the spot. The decision has not been revisited since.

Employer B: a large and expanding retailer

“We’ve got an expert team for pensions in the payroll team. It’s all centralised internally. And then we have regular pension committee meetings – made up of senior leaders and externals.”

A rapidly expanding retailer with new shops opening on a weekly basis in recent months and over 30,000 employees, places great emphasis in being an attractive employer. A key priority is to pay well within the sector and offer an overall competitive compensation package.

Pension contributions are seen as an important component of the overall compensation package and are reviewed as part of an annual salary benchmarking exercise. If this exercise shows increases in the overall compensation package are required to retain a competitive position within the employment market, increases are equally distributed across salary and pension.

“We review pension contributions as part of our annual salary review and benchmarking. We look at the whole package.”

The company operates two separate pension schemes, distinguishing between hourly paid and salaried workers. While salaried workers are offered escalating matching, this is not offered to hourly-paid workers because of the view that this would be unfair for those who are unable to afford additional contributions.

Employer C: a large public service provider

Employer C provides contracted services and has a diverse employee base of around 20,000 workers. While the organisation employs mostly permanent employees, the workforce increasingly includes temporary workers as a result of Brexit and the pandemic. Some employees have come from the public sector and have carried over their pension rights.

Decisions on pensions are made by the Pension Policy Committee and Director of Group Reward, with the Head of Pensions Policy and Strategy feeding into reviews and providing recommendations. Pension contribution levels are made based on the cost to the business as well as with retirement adequacy considerations in mind. However, because of the organisation’s reliance on winning tenders predominantly based on price, contribution levels need to be balanced carefully against this context too.

"As Head of Pensions I have to have two hats. One is the desire that people save for their future – not just pensions but for rainy day. But it is a cost for individual and business."

The company's decision to offer 6% employer contribution for employees who contribute 6% themselves is based on TUPE regulation and the belief that 12% in total contributions is an adequate contribution level when starting young and is believed to be a competitive offering.

Leadership has historically been offered an employer contribution of 10% for which there is no employee contribution required. The business is currently reviewing the equality within their pension contributions structure offering, in response to expected changes in legislation and a growing internal desire to remove inequalities.

Employer D: a mid-sized fast-growing publisher

Employer D is a publisher of digital content which has grown rapidly in the past few years. With a current headcount of approximately 1,200 employees on permanent contracts with a further 200 on fixed-term contracts, they have been steadily onboarding 30 to 40 new joiners each month for some time.

Recently, their Finance Director initiated and steered a review of their pension contributions offering. The review, conducted in consultation with HR, was triggered by a desire to improve employee tenure, and also in response to results from an internal survey in which employees expressed a desire for a better pensions reward package. Their review resulted in sharing a proposal with the CEO, the ultimate decision maker, which included three different matching options. The three options included employer contributions of 5%, 6% and 8% for which employees would qualify after two years' service and asking employees to contribute respectively 6%, 7% or 9% across the different options.

The rationale for the three different options was underpinned by a combination of cost to the business, retirement adequacy as well as a sense of 'quid pro quo':

"We didn't want to give away something for free, we wanted our employees to also do something."

"I took some research about the average a couple should save per month to have a specific household income and calculated the average shortfall for our employees. For each option I flagged how much the shortfall would be reduced for an employee."

"I also worked out different options and the cost to the business per month and the impact it would have on our profit in the last year."

Salary sacrifice was also considered as part of the review but it was discounted as an option as it was felt to be too complex to explain to employees.

"We have quite a young workforce which means our employees need quite a bit help with financial advice. Salary sacrifice can be quite confusing to get across to people so we decided to keep it simple."

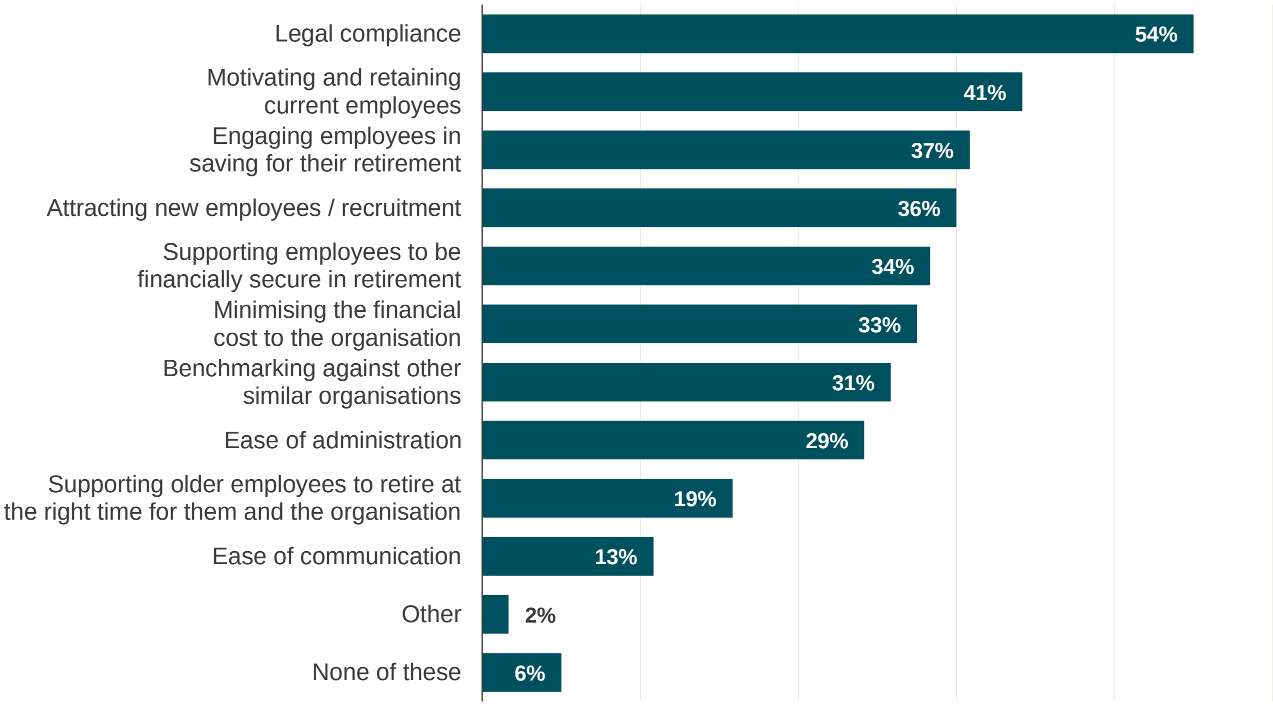
Costs for each option were based on the assumption of a near 100% take-up, however actual take-up is just under 50%, which is possibly due to limited communication that was shared with employees when the new package was rolled out.

Lessons learned about actual take and awareness of other existing approaches to employer contribution models being adopted by other employers, means the Finance Director is keen to explore other options at the next review, in particular escalating match models.

Motivations and rationale

As well as there being a wide range in decision-making approaches between employers, there are also a variety of motivations and rationales for pension contribution set-ups.

Figure 14: Factors considered when an organisation makes a decision on pension contribution levels



	Small (2–49 employees)	Medium (50–249 employees)	Large (250+ employees)
Legal compliance	63%	54%	47%
Motivating and retaining current employees	27%	38%	52%
Engaging employees in saving for their retirement	28%	25%	48%
Attracting new employees / recruitment	17%	32%	51%
Supporting employees to be financially secure in retirement	25%	23%	45%
Minimising the financial cost to the organisation	27%	32%	38%
Benchmarking against other similar organisations	13%	31%	43%
Ease of administration	28%	24%	31%
Supporting older employees to retire at the right time for them and the organisation	9%	13%	29%
Ease of communication	9%	10%	17%
Other	3%	4%	1%
None of these	6%	4%	7%

Base: All (502); Small (313); Medium (102); Large (87) NB 'All employer' data weighted by region, industry and employer size based on employment. 'Small', 'Medium' and 'Large' employer data weighted by region and industry.
Question: Which of the following factors were considered when deciding the organisation's pension contribution levels?
Notes: **Highest %** per group

Legal compliance and the power of default settings

Legal compliance is the most cited factor driving contribution levels. For more than half of employers (54%), compliance with auto enrolment regulation is a key determining factor when deciding pension contribution levels and this influence is greatest amongst small organisations. This is by far the most important driver for smaller organisations – more than 3 in 5 of small employers (63%) say legal compliance was a factor for deciding on contribution levels, compared to 47% for large employers, and other factors play a lesser role for them.

Our research indicates that legally required minimum employer contributions levels act as strong anchor points for employers and this plays out in different ways. For example, we found that deciding to offer the minimum required contribution levels can be the result of a straightforward box-ticking exercise for some organisations, especially those that are small and new, and those who are looking to minimise costs.

> **'We've done what we needed from an auto enrolment perspective and that's it. The financial impact of offering more than the minimum, for example jumping from 3% to 6%, can be quite big.'**
>
> *Employer, 1,000 – 4,999 employees*

However, nearly one third of employers (31%) offering minimum contribution levels to all eligible employees say they do this because it is the amount recommended by government. We already know that many employees interpret the minimum contribution levels as a recommendation.[36] This new finding shows that this interpretation is also prevalent amongst employers.

In addition, 1 in 5 of those offering minimum contributions to all employees (20%) were driven by the default setting in their payroll software or pension provider set up, and indeed 1 in 20 (5%) did not know it was actually possible to contribute more than 3%.

This perhaps suggests that there is some potential to disrupt these defaults where affordability is not a concern, for example by building nudges to consider alternative approaches into the systems and platforms employers are using to manage their pension contributions.

Recruitment and retention

Our survey data also suggests that being an attractive employer is a key consideration for some organisations when deciding contribution levels. 41% of all employers indicate that motivating and retaining current employees plays a key role in decision making for setting contribution levels and 36% take this into account within their recruitment strategy. These are the most commonly considered factors for large organisations.

Amongst the group of employers who offer above-minimum contributions to some or all of their employees, almost 3 in 5 (57%) indicate they do so because they believe it is good for employee retention

[36] Nest Insight, 'Beyond the defaults: What role can language play in helping pension scheme members contribute the right amount for them?' (November 2020). **nestinsight.org.uk/wp-content/uploads/2020/11/Beyond-the-defaults.pdf**

and just over half (53%) do so because it is good for employee recruitment. Both of these factors rise to 63% for large organisations.

Benchmarking and industry norms play an important role here – a quarter (25%) of these employers said that they contribute more for some or all of their employees because it is expected in their sector. In the qualitative research we heard that sometimes this can mean trying to do the minimum within a sector context, and for other organisations the strategy is to offer distinctively higher contributions than competitors. It's also worth noting that sometimes a matching structure is deployed in this context to minimise cost. This allows a high headline maximum contribution rate to be advertised, but not contributed for all employees.

Not all employers are convinced of the value of enhanced pension contributions for recruitment and retention. If pension contributions are perceived to be unmotivating to employees who are more focussed on short-term finances, then the focus is likely to be on maximising the employee appeal of take-home pay. Additionally, in sectors where it is the norm to contribute at minimum levels, it is unlikely that enhancing contributions will be seen to be necessary for recruitment and retention.

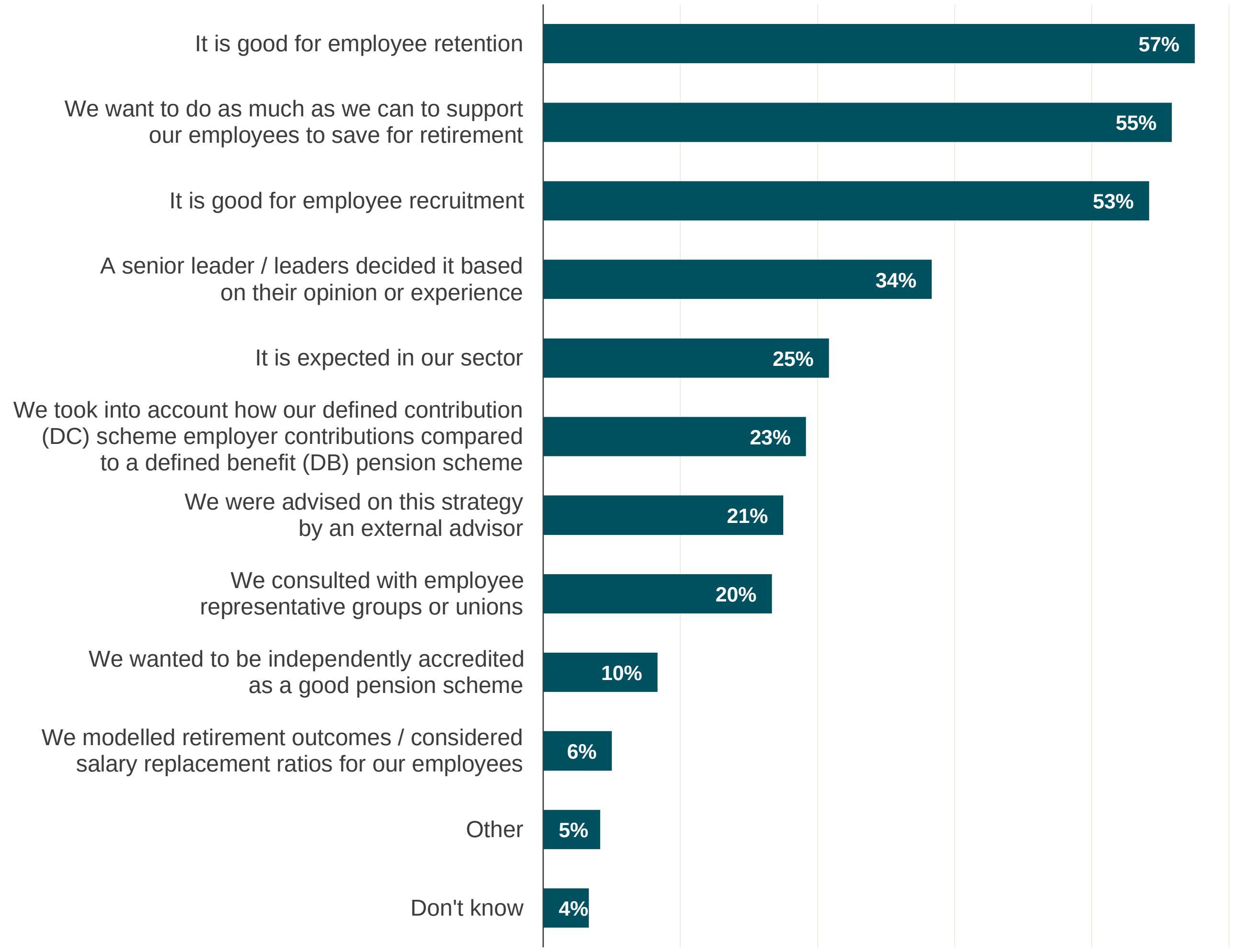
'The big issue for employers is: is the employee going to value it as part of the renumeration package? Will it affect at point of recruitment and retention? If the employee only has eyes for the take-home salary, then it's quite hard for the HR director to make a case to make the finance team to give more money.'

Industry body

'We would consider a review of contributions levels if there was more demand, but it's not seen as key priority for the moment. We prefer to invest in what people are interested in.'

Employer, Under 250 employees

Figure 15: Reasons for offering more than the legal minimum 3% employer contribution for some or all of employees



Base: All whose organisation offers more than 3% employer contribution for some or all employees (n=238)
Question: You've said your organisation offers more than the legal minimum 3% employer contribution for some or all of your employees. What are the reasons for this? Please select all that apply.

Supporting employee financial security in retirement

Just over half of employers (55%) say a reason for them to offer above the minimum to some or all of their employees is to support their employees to save for retirement. This is the most common reason cited by both small and large employers who offer more than the minimum to some or all employees.

Despite this, few employers actively consider employee retirement adequacy when setting their pension contribution levels. Only 6% of employers who offer more than minimum contributions for some or all of their employees say that the levels set were driven by modelling retirement outcomes or considering salary replacement rates for their employees. Employers who have or have previously had a defined benefit (DB) scheme in place are more likely to consider retirement outcomes when setting their defined contribution (DC) scheme pension contribution levels.

Recent research by Aon reinforces this.[37] Their study of FTSE 350 employers found that 63% do not know the expected outcome for a typical member at retirement.

These findings were reinforced in our qualitative research. We found only a few cases where contribution levels were determined with employees' retirement outcomes in mind. From these anecdotal examples it is evident that there is little scientific evidence behind determining the right contribution levels for an adequate retirement outcome. It was clear that for smaller employers, this can be a challenging exercise without the resources in place to obtain suitable advice and a lack of awareness on where to go for guidance on setting pension contributions. This can mean in practice that some base their contribution levels on information found in consumer-facing information channels, or contribution levels are determined based on assumptions or rules of thumb for what would achieve good retirement outcomes.

> **'I took some research from Which? that said that the average couple needs to save a certain amount per calendar month to have this household income for when they retire. I included State Pension and I worked out per employee what their average shortfall is.'**
>
> *Employer, 1000 – 4,999 employees*

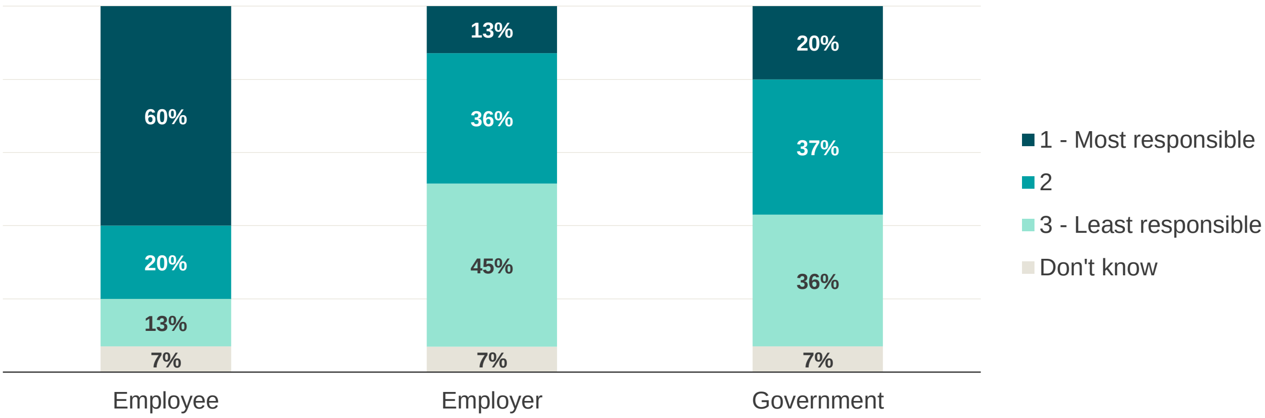
> **'I think because there isn't a clear benchmark of what success looks like, it is not easy for employers to help to understand what employees should be going for.'**
>
> *Industry body*

One reason why retirement adequacy is often not an active consideration is that employers feel the difference that they can make to employee outcomes is limited, particularly if there is a high turnover of employees in their organisation. Employers struggle to see how they can impact the pension outcomes of an employee who will be exposed to different schemes across their working life. Some employers also stated concerns around being seen to provide wrong advice when setting different than the minimum contribution levels.

Another reason is that financial security in retirement is seen to be mostly the employee's responsibility. We asked survey respondents to rank who is most to least responsible for an employee's financial security in retirement out of the employee themselves, the employer and the government. We can see in Figure 16 that responsibility is seen to sit mostly with the employee – with 60% of employers saying the employee is most responsible, 20% saying government is most responsible and only 13% saying the employer is most responsible.

[37] Better Outcomes by Design | Aon's 2022 DC Pension Scheme and Financial Wellbeing Survey

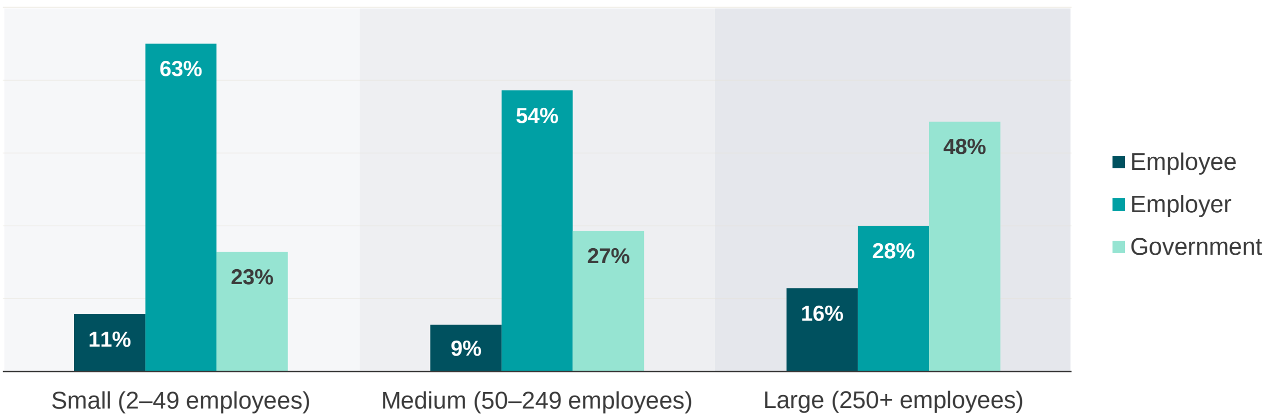
Figure 16: Employer perceptions of who is most responsible for ensuring employees have enough pension savings to have a financially secure retirement



Base: All (502). NB ‘All employer’ data weighted by region, industry and employer size based on employment.
Question: Who do you consider to be most responsible for ensuring employees have enough pension savings to have a financially secure retirement? Please rank from most (1) to least responsible (3).

Just under half of employers (45%) say they are least responsible. Smaller employers are the least likely to see it as their role – 63% of small employers think they are the least responsible compared with only 28% of large employers thinking that.

Figure 17: Employer perceptions of who is least responsible for ensuring employees have enough pension savings to have a financially secure retirement by employer size



Base: Small (313); Medium (102); Large (87) NB ‘Small’, ‘Medium’ and ‘Large’ employer data weighted by region and industry.
Question: Who do you consider to be most responsible for ensuring employees have enough pension savings to have a financially secure retirement? Please rank from most (1) to least responsible (3).

> **‘As an employer, I don't think it's our responsibility to ensure staff have enough money set aside. They might want to invest in property. It's up to them how they live their life.’**
>
> *Employer, Under 250 employees*

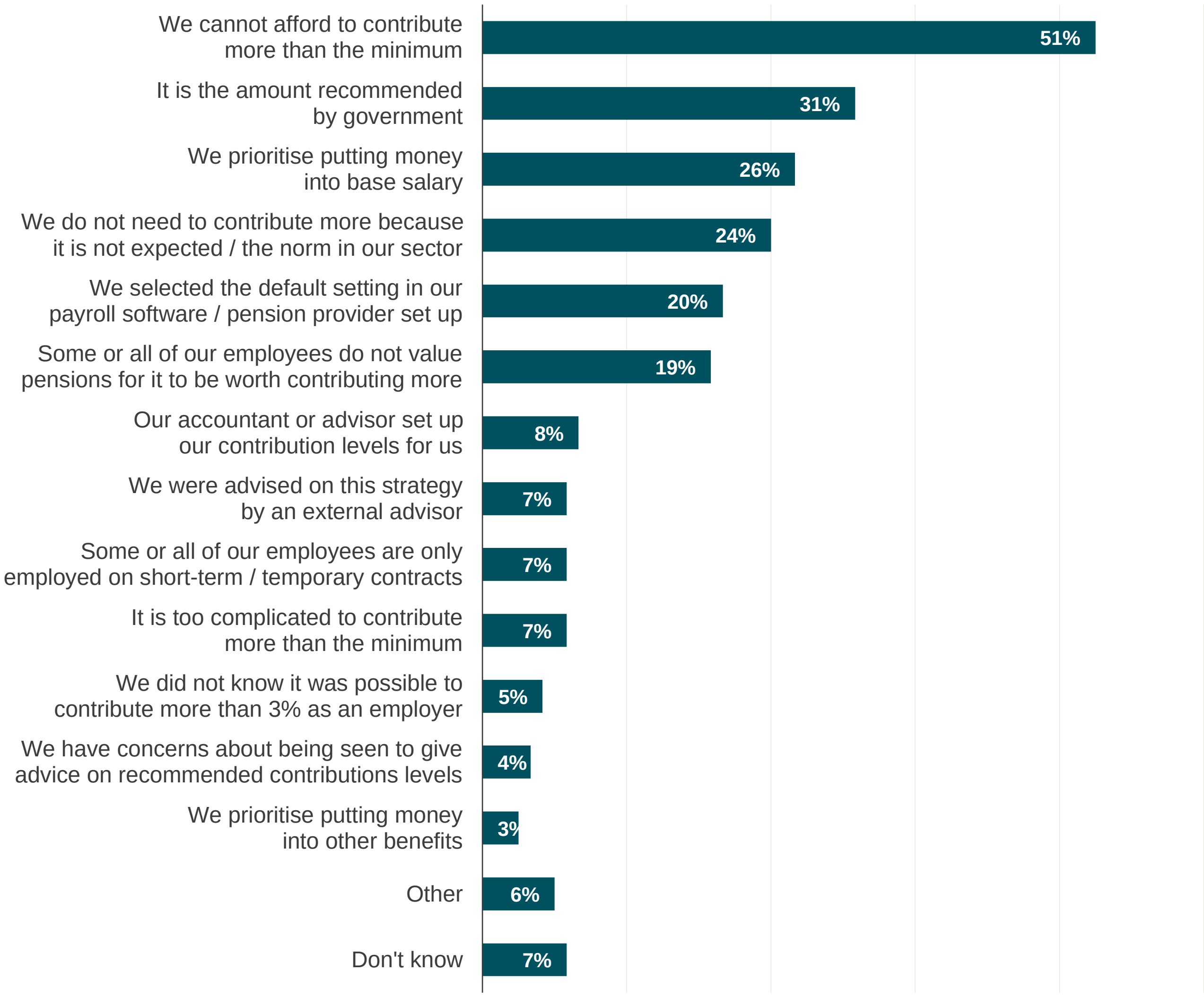
‘I’m not convinced the employer has a key role to play in achieving greater financial wellness and retirement adequacy for their employees or that the employee would want that. I’m also concerned about being seen to give wrong advice.’

Employer, Under 250 employees

Affordability and cost minimisation

Affordability is the main reason given for contributing at the minimum level for all employees, cited as a factor by around half (51%) of these employers. Just over a quarter of employers contributing the minimum for all employees say that this is because they prioritise putting money into base salary.

Figure 18: Reasons an organisation offers the minimum 3% employer contribution for all employees



Base: All whose organisation offers a 3% employer contribution for all employees (243)
Question: For what reason(s) does your organisation offer a 3% employer contribution (the legal minimum) for all of your employees? Please select all that apply.

> **‘Small businesses look at pensions through two frames: cost and compliance.’**
>
> *Industry body*

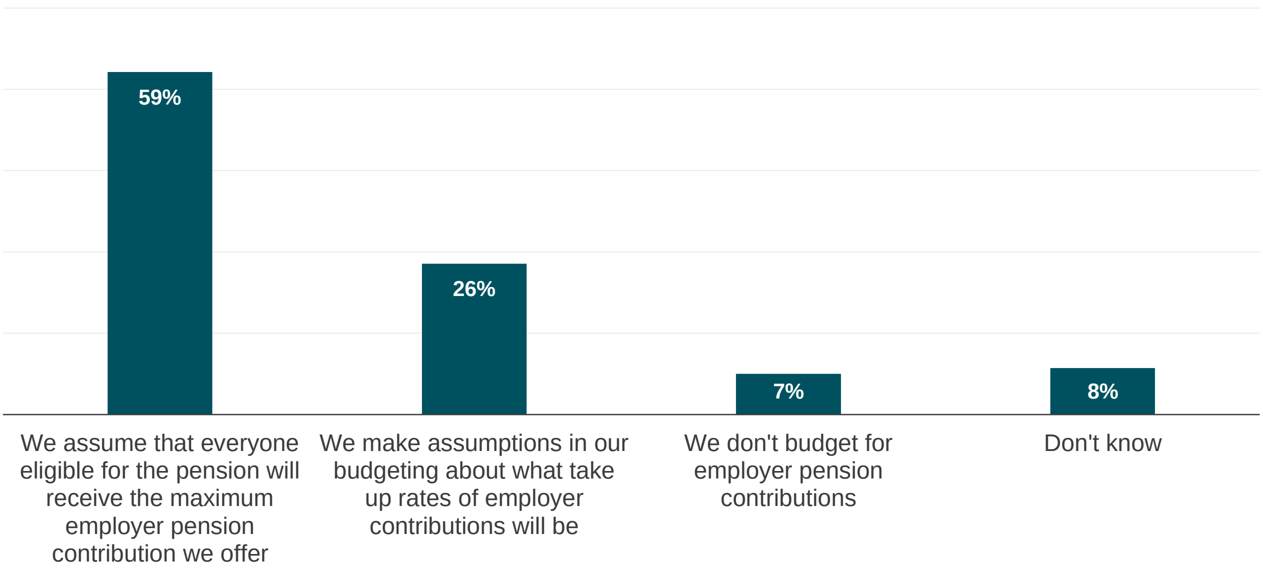
Budgeting for contributions

Some employers budget for all employees to take up maximum contribution levels, others make assumptions around take-up, and some do not budget for pensions contributions at all.

Around 3 in 5 employers (59%) base their budget on the assumption that everyone eligible will receive the maximum employer pension contribution offered within their organisation. This rises to 70% for small employers and 63% in medium sized employers. Those with perceived lower opt-out levels are also more likely to budget in this way.

Larger organisations are more likely to make assumptions based on estimates of what take-up rates of employer contributions will be; about 2 in 5 (38%) of larger employers say this is the case, compared to 1 in 10 (10%) of smaller employers and a quarter (25%) of medium sized employers.

Figure 19: Employer pension contribution budgeting and assumptions

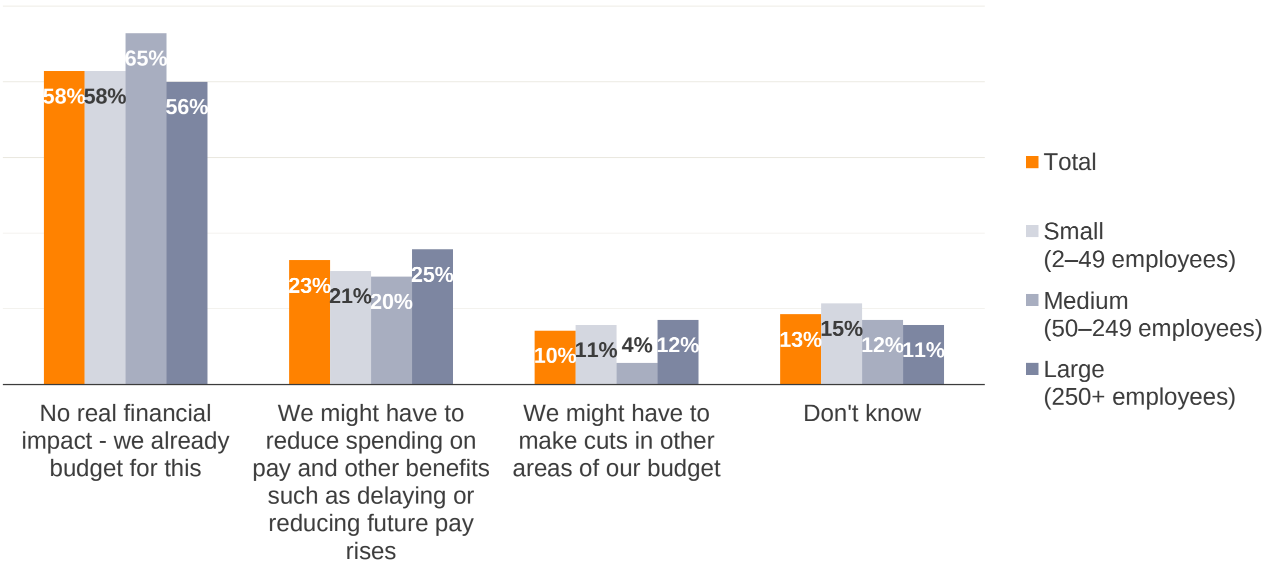


Base: All (502) NB ‘All employer’ data weighted by region, industry and employer size based on employment.
Question: How does your organisation budget for employer contributions?

Around 3 in 5 employers (58%) say there would be no financial impact if more employees took up the maximum contributions available in future because they have already budgeted for this. This suggests that some employer pension contributions are genuinely being left on the table and are there to be claimed.

However, about a third of employers (33%) indicate they would need to reduce spending in either pay or other benefits (23%) or other areas of their budget (10%) if all employees took up the maximum contributions they are eligible for.

Figure 20: Expected financial implications, if any, of more employees taking up the maximum contributions available



Base: All (502); Small (313); Medium (102); Large (87) NB ‘All employer’ data weighted by region, industry and employer size based on employment. ‘Small’, ‘Medium’ and ‘Large’ employer data weighted by region and industry.

Question: If a significantly higher number of employees took up the opportunity of receiving the maximum employer pension contributions available to them at your organisation in future, what financial impact would this have?

The potential for evolution and alternative approaches

Opportunities for organic evolution in employer pension contribution approaches are limited and there are many contextual and structural barriers to change. However, there are relatively high levels of interest in alternative approaches, particularly where an employer could better support employee retirement saving with minimal cost. Better guidance and employer-focussed nudges could also help.

Appetite for change

Opportunities to make changes to existing pension contribution models and levels are very limited.

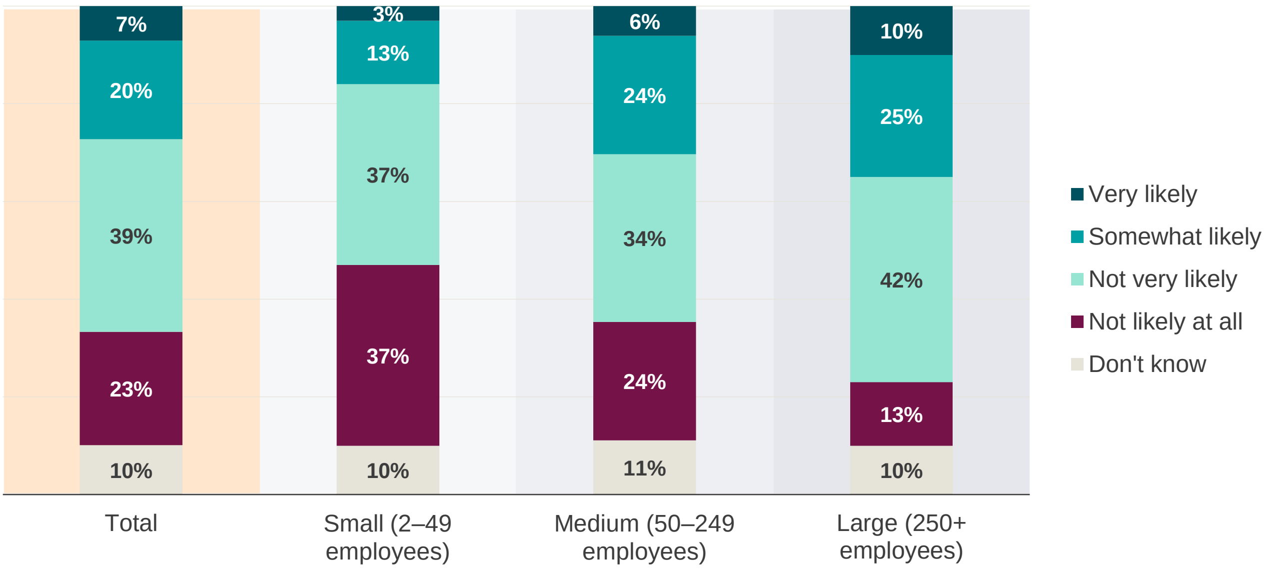
Pension contribution structures are rarely reviewed regularly by employers. Only 2 in 5 employers (37%) review contribution structures at least every couple of years. A similar proportion of employers (38%) don’t review these regularly or at set times and about 1 in 8 (15%) say they only conduct a review when it is required to do so.

Figure 21: The frequency that pension contribution structure, pension scheme provider and payroll system or provider are reviewed by organisations

Base: All (502) NB ‘All employer’ data weighted by region, industry and employer size based on employment.
Question: How often do you review the following?

Nearly two thirds (62%) of employers say their organisation is unlikely to implement a different approach to pensions contributions in the next two to five years, rising to three quarters (74%) of smaller employers. Just over a quarter (27%) say this is likely and this rises to 35% for larger companies.

Figure 22: Likelihood that an organisation will implement a different approach to pension contributions in the next two to five years



Base: All (502); Small (313); Medium (102); Large (87) NB ‘All employer’ data weighted by region, industry and employer size based on employment. ‘Small’, ‘Medium’ and ‘Large’ employer data weighted by region and industry.
Question: How likely or unlikely is your organisation to implement a different approach to pension contributions in the next 2–5 years?

The current challenging economic context, the inflexibility of legacy systems to the implementation of new approaches and the complexity of some employers’ pension provision all act as strong barriers to any change even when there is an appetite for enhancing the existing model.

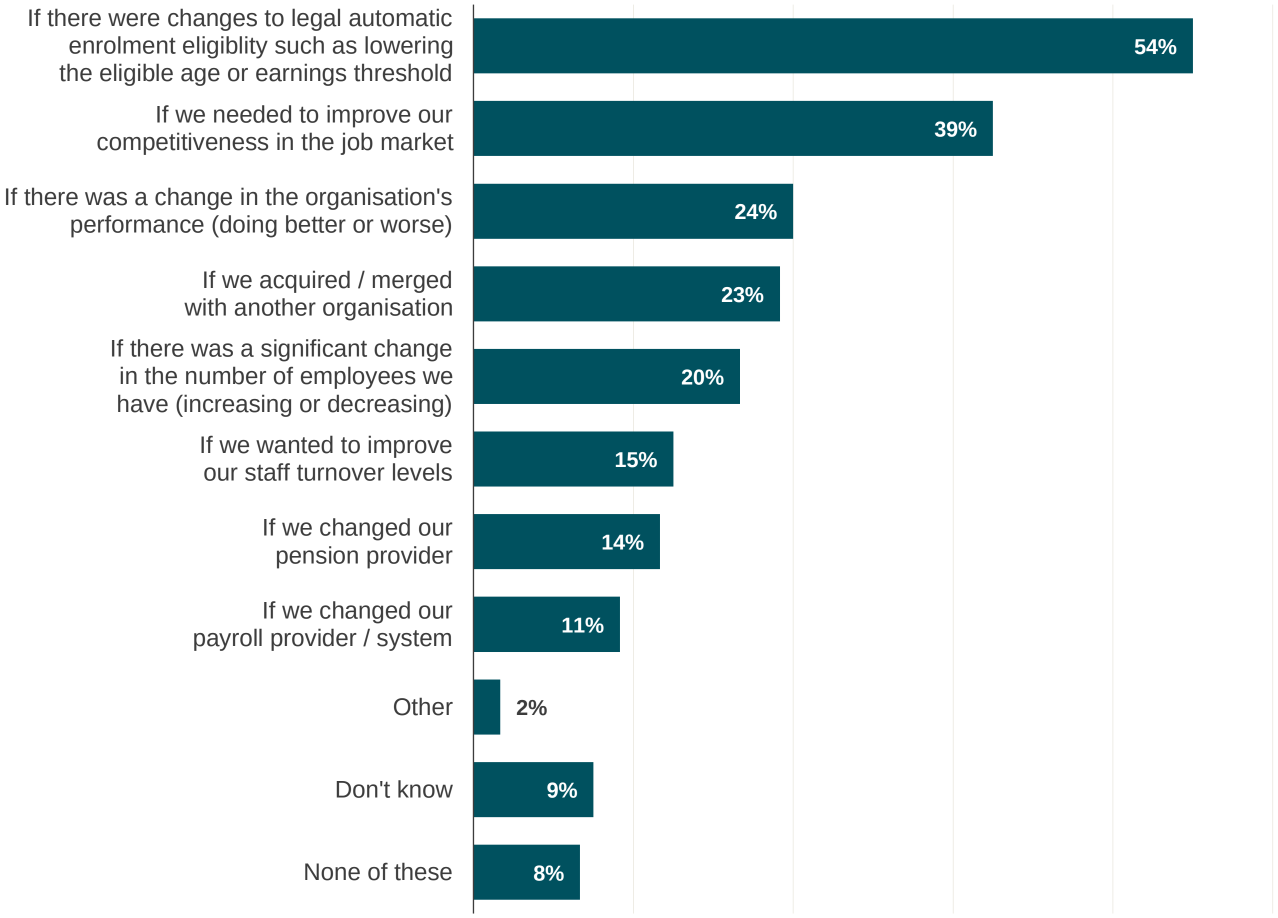
> **‘The cost of any payroll change is staggering. We could only do something in future if there was a wholesale system change if the bonnet was already up.’**
>
> *Employer, 30,000+ employees*

Additionally, many individuals responsible for pension decisions, particularly in smaller organisations, are not pensions experts and lack the knowledge and confidence to consider doing anything other than the default contributions. Managing the pension scheme is often a very small part of the role for these individuals and given little consideration beyond initial auto enrolment compliance, which has often been dealt with externally by an accountant or bookkeeper. Some also fear repercussions from getting it wrong or straying into giving advice.

> **‘There is no scope to review our contribution levels at the moment. This is a miniscule part of my job and isn’t on the agenda for at least the next 24 months.’**
>
> *Employer, 250–999 employees*

When asked about potential reasons to review or change pension contributions strategy or approach, changes to legal auto enrolment eligibility came out as the top reason and this is consistent by business size. Over half of employers (54%) say this would be a reason for considering a review or change.

Figure 23: Reasons, if any, why an organisation might be open to reviewing or changing its pensions contributions strategy or approach



Base: 502; NB ‘All employer’ data weighted by region, industry and employer size based on employment.
Question: Which reasons, if any, might make your organisation open to reviewing or changing its pensions contributions strategy / approach?

Some employers are conscious of the potential increase in the cost to their organisation of employee pensions contributions if the qualifying earnings band is removed and the age eligibility threshold is lowered from 22 to 18, as recommended by the 2017 review of auto enrolment. In some cases, this meant they were holding back on conducting their own review of pension contributions while they wait to see what changes will be mandated. Employers may also hold back on investing more in pensions because they fear that changes will be mandated in other areas that impact their cost base, such as the recent National Insurance rise or rises in minimum wages.

‘An employer could say I want to put half a million extra into pensions for example. The challenge they have is if there are significant changes in minimum pay. As soon as the minimum increases, the differentiator needs to change as well; National Insurance and holiday pay for example all will increase too. Those changing compliance landscapes make employers nervous.’

Industry body

Several external factors could prompt employers to review pension contributions sooner than planned, including:

- If the job market continues to be competitive and pension contributions are seen by the employer to be a motivating part of the employee value proposition. 39% of employers said that they might review their approach 'if we needed to improve our competitiveness in the job market.'
- A quarter of employers (24%) said that they might review their approach if there was a change in the organisation's performance for better or worse. In a challenging business context this may mean that contributions are reviewed as part of a cost-cutting exercise where they are above minimum levels.
- As previously noted, if differentiated pension contribution strategies come under increased scrutiny for being unequal and unfair, this may prompt a review.

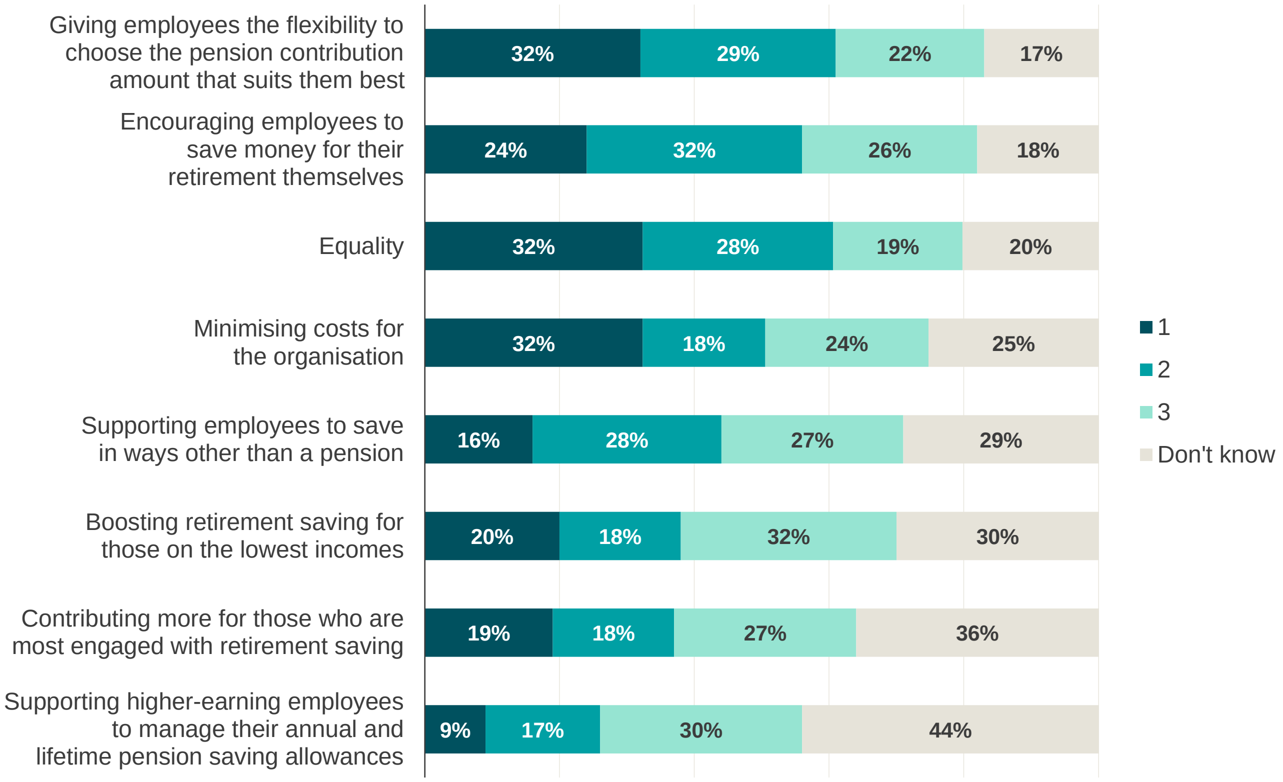
> **'In 2020 we changed our contribution structure. The main driver was to make sure we all had access to the same level of contribution, as a result of shareholder interest. It was a CEO project to deal with institutional investor pressure.'**
>
> *Employer, 30,000+ employees*

Principles for change

Despite a limited appetite for changing their approach to pension contributions, employers were interested to learn of alternative models and approaches. Reactions to the alternative models or approaches tested with both interviewees and survey respondents revealed that there is an interest in doing pensions differently. Many employers were simply unaware of these ideas and, as we have seen, in some cases even unaware of any scope to deviate from the minimum levels.

Employer responses suggest that key principles for designing an alternative employer contributions approach would include flexibility, encouraging higher employee contributions, equality and managing cost (see Figure 24). Responses to this question did not greatly vary by employer size. Additionally, simplicity came through as a strong theme in one of our open-ended questions about considerations for designing an approach, although it was not included as an answer as part of our closed question.

Figure 24: Top three priorities for organisations if they were to start from scratch and implement a new pension contributions approach



Base: All (502) NB 'All employer' data weighted by region, industry and employer size based on employment.
Question: If your organisation was to start from scratch and implement a new pension contributions approach, which of the following features would you consider a priority? Please rank the 3 highest priorities

Flexibility

A large majority of employers (83%) indicated flexibility to choose the pension contribution amount that suits them best would be a top priority if they were to start from scratch. Responses to open-ended survey questions around desired features suggested that 'flexibility' has a few different aspects for employers:

- The ability to personalise pension contribution levels according to individual circumstances.
- The ability for employees to change or pause contributions more flexibly and regularly.
- Greater flexibility for around minimum and maximum levels – perhaps influenced by employers who see the minimum levels as recommended levels or who are not aware that they and their employees are able to contribute more.

Employers also acknowledged that current systems are not well set up to offer such flexibility.

Encouraging higher employee contributions

Encouraging employees to save more for their retirement themselves was ranked as part of a top three feature by over 8 in 10 employers (82%), with a quarter (24%) of employers viewing this as the most important consideration. Whilst we saw previously that employers think that employees are most responsible for ensuring they are financially secure in retirement, employers do think they have a role to play in supporting this.

Equality

As previously discussed, employers are increasingly starting to consider the equality of approaches across their workforce. While current practice directs additional contributions primarily to those who already have greater security and/or are more confident, employers are less sure this is the right approach when thinking about starting a contribution structure from scratch. When asked what factors would be a priority in this scenario, equality is a top three priority consideration for 4 in 5 employers (80%) and for almost 1 in 3 (32%) it is the most important consideration. Established contribution models that favour more senior employees or those with longer tenure are starting to be questioned.

However, it is possible that answers to this question were affected by social acceptability bias, and other responses bring to life a real divergence of views around the question of how best to target pension contributions spend – whether to target it equally across a workforce, at those who need it most, or at those who are most engaged. Whilst around a third of employers (32%) said equality would be a top priority if they were to implement a new pension contributions approach, around 1 in 5 employers (20%) said that boosting retirement saving for those on the lowest incomes would be a top priority and a similar proportion (19%) said that contributing more for those who are most engaged with retirement saving would be a top priority. This feels like a fundamental divide in employer opinion underpinning some of the differences in approaches that we see.

‘We only give extra money to people who value it – that’s the “reward” principle.’
Employer, 5,000–29,999 employees

‘If we could start again, I would do something more generous on the first £20k and then less generous after that.’
Employer, 30,000+ employees

‘I would like it to be more fair so everyone had the same level of contribution.’
Employer, survey open question response

Managing cost

About a third (32%) of employers placed minimising cost to the organisation as their top priority if starting from scratch with their approach to pension contributions, with three quarters (75%) of employers selecting this as one of their top three priorities. This is unsurprising given the focus on affordability seen in current approaches to pension contributions and current pressures on business operating models. This suggests that if employers are to be encouraged to evolve their approaches to pensions contributions in ways that could enhance employee retirement financial security, solutions that are low cost are more likely to be adopted.

Another aspect of managing cost is predictability. Models that allow for varying take-up of additional contributions by employees, such as matching structures, are less straightforward for budgeting than those where the employer contribution cost for the year is more certain.

‘Non-contingent contributions are predictable on costs for the employer.’
Expert interviewee

Simplicity

Simplicity was frequently mentioned spontaneously in response to the open-ended survey questions as well as in the qualitative research. This desire for simplicity is driven both by the complexities experienced in implementing and administering pension contributions, as well as a desire to keep things simple for employees to make it easier for them to understand and engage with their workplace pension. It was a common desire expressed across a range of employers with different circumstances.

> **'As you have four different financial incentive schemes, you make it very hard to employees to figure it out. As soon as you introduce more complexities, you introduce more procrastination.'**
>
> *Expert interviewee*

> **'Pensions are confusing as they are. I wonder sometimes if it's easier to keep things simple so you get better engagement from employees.'**
>
> *Employer, 250–999 employees*

The need for simplicity was also evident in employers' responses when asked for their feedback on alternative models and approaches. While employers saw the potential benefits of some of the more innovative approaches in terms of achieving better retirement outcomes, these approaches may also be seen to require too much organisational bandwidth to get them implemented and established within an organisation.

> **'The scheme needs to be as simple as possible to implement and for employees to understand. In a small organisation we have limited time to devote to the pension scheme and the administration of it. Simpler eligibility rules. Ideally everyone in. Simpler contribution rules.'**
>
> *Employer survey response*

Alternative models

During this research we explored several different models for employer contributions. The most promising models were taken through to the quantitative research stage.

Pension contribution models explored in the employer survey and the definitions used:

Save More Tomorrow™ auto escalation: An employee can commit now to automatically increasing their pension contribution in the future, for example when they get a pay rise or after a year.

Escalating match: The employer offers a tiered matching system in which employer contributions increase the more an employee contributes, usually up to a maximum level.

Higher default with the option to opt down: Giving employees the option to opt down to minimum contributions from a higher default, rather than them having to opt in to making higher contributions.

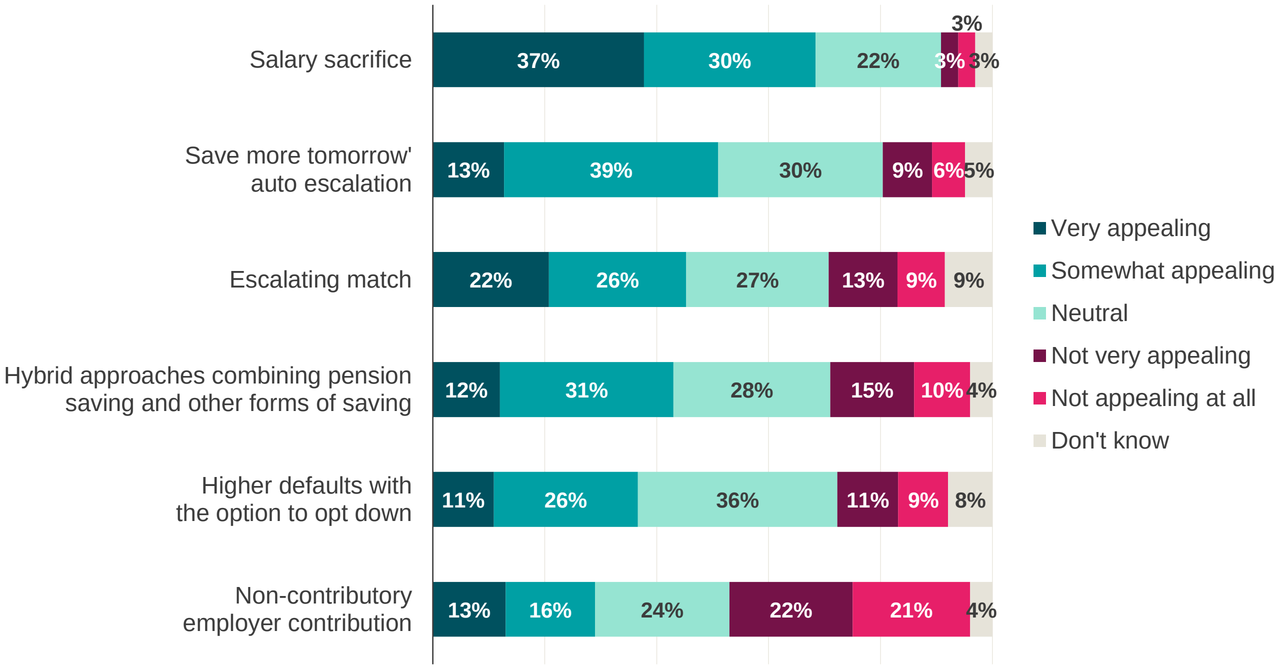
Non-contributory employer contribution: The employee does not need to contribute to get an employer contribution.

Salary sacrifice: A tax-efficient way to make pension contributions. An employee agrees contractually to a reduction in their gross pay, by an amount equal to their employee pension contributions, and in exchange, the employer agrees to pay increased employer pension contributions instead. Using salary sacrifice means that the employee and the employer both pay less in National Insurance contributions.

Hybrid approaches combining pension saving and other forms of saving: Employees can choose to divert some of the pension contributions made by their employer into other saving accounts, for example for emergency savings or a home deposit.

There were considerably high levels of interest in different contribution models, despite the barriers to change described.

Figure 25: Appeal of pension contribution approaches to employers, now or in the future



Base: All (502) NB 'All employer' data weighted by region, industry and employer size based on employment.
Question: How appealing is the following pension contribution approach to your organisation, now or in future?

The most promising approaches to enhancing workplace pension contributions, combining potential feasibility, impact and attractiveness to employers, included:

- enhancing savings via salary sacrifice
- defaults and nudges to support employees to save more, such as auto escalation and higher defaults with the option to opt down
- hybrid approaches combining pension saving and other types of saving.

Although escalating matches and non-contributory employer contributions had some appeal, these approaches suffer from the limitations outlined earlier in this report.

Enhancing savings via salary sacrifice

Salary sacrifice is considered appealing by around two thirds of employers (67%), and around three quarters (73%) of medium to large employers. This is perhaps not surprising given it's a win-win for both employer and employee, with both saving money on National Insurance contributions.

'I would like to see salary sacrifice by default unless people opt out. An easy way to opt for salary sacrifice/increasing contributions through an app/online...'

Employer survey response

As we've seen earlier in this report, 45% of employers don't currently offer a salary sacrifice pension arrangement or don't know if they do, rising to 73% of small employers. With low awareness levels of salary sacrifice and implementation complexities, greater support would be required for smaller organisations in particular to adopt this approach. Although there are potentially employer savings once the scheme is set up, employers may still see implementation costs as a barrier.

'Salary sacrifice is not much used by SMEs although they could save cost – they don't know about it or have the support to implement it.'

Industry body

'We have looked into offering salary sacrifice for all staff, but the cost to our business is the main barrier.'

Employer, under 250 employees

However, wider adoption of salary sacrifice approaches does have the potential to enhance employee retirement savings without increasing the cost of contributions for employer or employee if the savings were added to pension contributions by both parties. Alternatively, some or all of the savings could be put towards an emergency saving pot in the employee's name.

'If an employee contributes more, then they should get some of the employer saving on the NI back.'

Employer survey response

There is some innovation in this space in the market, with pension and payroll providers such as Husky and Cushon raising awareness of the benefits of the salary sacrifice approach and providing implementation support to employers via their platforms. If this approach is to be adopted beyond larger employers with greater technical expertise, smaller employers are particularly likely to need support to adopt salary sacrifice and, importantly, to put the savings towards employee retirement or other saving.

Defaults and nudges to support employees to save more

There were also relatively high levels of interest in using defaults and nudges to support employees to save more, including auto escalation approaches and higher defaults with the option for employees to opt down. Around half of employers (51%) said Save More Tomorrow™ or similar auto escalation approaches were appealing for their organisation, now or in the future. 37% of employers said higher defaults with the option for employees to opt down were appealing.

These approaches could either work in conjunction with higher employer contributions, or alternatively could provide ways for employers to do something to support their employees towards adequate retirement incomes again without increasing their own contributions bills.

> **‘Engagement hasn’t been cracked in 40 years. You’ll hear we need much better websites etc. They’re part of an answer but you’re not getting to a position where people will engage with pensions, there are bigger priorities in lives. Auto features will be key. Auto escalation is probably the best answer to the pension adequacy challenge.’**
>
> *Employee benefit consultant*

In the current economic climate, perhaps these sorts of solutions present more pragmatic opportunities for some employers to support their employees’ financial security in retirement than increasing their contributions. But there can be challenges in implementation, particularly for smaller employers, so solutions that support more employers to consider and adopt approaches like these would be needed for these ideas to scale in practice. Additionally, a Save More Tomorrow™ approach that relies on pay rises may be constrained in a context of low wage growth.

> **‘The lack of guaranteed and significant pay rises makes this a difficult one to encourage or promote at the moment.’**
>
> *Employer, under 250 employees*

> **‘Anecdotally this is what some employees ask us to do when they get a pay rise. Practically, I imagine this to be quite complicated...’**
>
> *Employer, 1000–4999 employees*

Adoption of these approaches by employers is currently low, even amongst those with more sophisticated expertise in house. A Willis Towers Watson survey of FTSE 350 employers found that 85% default employees into minimum contribution rates and only 3% defaulted them into the maximum rate offered under the scheme.[38]

Hybrid approaches combining pension saving and other types of saving

Around 4 in 10 employers (43%) said hybrid approaches combining pension saving and other forms of saving are appealing as an approach.

Many employers are looking at ways to support their employees with the cost-of-living challenges they face, including by offering shorter-term focussed benefits such as payroll saving, loans and shopping discounts and vouchers. Indeed, some employers are making one-off lump-sum cost-of-living payments to their employees.

We heard from employers who were wrestling with how to get this balance right when thinking about their pension contribution levels. They are mindful that employees are more likely to be focussed on today, and therefore ‘return on investment’ in terms of workforce response is likely to be greater for shorter-term financial support than for an increase in pension contributions.

Hybrid saving approaches that build in an element of accessible saving alongside illiquid pension saving have the potential to find the right balance for employees between shorter and longer-term goals.

[38] Willis Towers Watson, ‘FTSE 350 DC Pension Scheme Survey 2020’, July 2020: **FTSE 350 Defined Contribution Pension Survey 2020 - WTW (wtwco.com)**

> **‘Because people on lower incomes or earlier in their career may not want to put so much into a pension.’**
>
> *Employer survey response*

> **‘Because people's life cycles are significantly different. Pensions, naturally, are focused on retirement, but increasing numbers of people need support in the here and now – with affordable housing/ability to buy ranking high amongst considerations. Prevention is better than cure, so early intervention support is important. A change of culture, I suppose.’**
>
> *Employer survey response*

Nest Insight is leading a programme of work exploring the role of workplace emergency saving, including trialling a ‘sidecar’ saving solution that brings together accessible saving and retirement saving. We regularly share the learnings from this work on our website.[39]

It would also be possible to support other employee financial goals through the workplace pension contribution structure. For example, Abbott in the US launched a programme called ‘Freedom 2 Save’ in 2018, which allowed its employees to continue to receive employer pension contributions if they decided to put their employee contribution towards paying off their student loan rather than into their retirement account.[40] Abbott created the programme after hearing from employees that they were struggling to both pay off their student loans and contribute to retirement saving. Their innovative approach to employer contributions means that employees don’t miss out on starting to save for retirement early on in their careers and it has increased enrolment in retirement saving meaningfully. A similar approach could potentially be taken to combine saving for a home deposit with retirement saving, for example.

Case study: innovative employer pension contributions approaches

University of Lincoln: engaging a younger workforce through an alternative savings solution

The University of Lincoln recognises the important role they play as an employer in helping employees build towards retirement income adequacy. As an employer with a strong paternalistic and ethical culture, there is an emphasis on the link between mental and financial wellbeing in their decision making. Financial education and helping employees to build up a cushion to fall back on are therefore important pillars that underpin their financial benefits offering, as is giving employees the flexibility and freedom to choose what’s right for them.

Student employment is seen as part of the wider educational picture, preparing students to get ready for the workplace when they leave education. Campus Jobs employs approximately 1,500 students across 80 different roles. Student employees are offered the same generous defined contribution (DC) pension as the rest of the eligible workforce. As a default, they can receive a double match of up to 10% employer contribution when they make a 5% employee contribution themselves, or they have the option to opt down to 8% employer contribution if they make a 4% employee contribution.

39 **https://www.nestinsight.org.uk/research-projects/workplace-emergency-savings/**

40 See for example **https://www.abbott.com/corpnewsroom/strategy-and-strength/a-proven-solution-for-employees-with-student-debt.html**

However, most student employees are not meeting the minimum age or earnings thresholds for auto enrolment and for those who are, there has historically been a low take-up of the pension offering. Lack of financial awareness was not believed to be a key driver behind this low take-up, given the university offers a comprehensive financial educational programme to all its students. Instead, it is believed working students make an educated and informed decision not to save in the workplace pension because locking up some of their earnings is not appealing at their stage in life.

The university had allocated the budget for pension contributions for each employee and wanted to make sure it would be used in a way that benefited them.

'From a financial side you can say "super, it won't cost us if it's not going into the pension" but it felt morally and ethically the right thing to do to offer an alternative, given that money was ringfenced already for this employee.'

Keen on reallocating the unused budget into a financial solution that would support student employees and be more relevant to their financial situations, the university now contractually automatically enrols this group into saving into a workplace ISA at the same default employee and employer contribution levels as in the workplace pension scheme. The moment a Campus Jobs employee meets the thresholds for pensions auto enrolment, they are automatically enrolled as usual. If they opt out of pension saving, they can then choose to save into the ISA instead.

Early results are promising with very few students opting out and most students actively engaging with their savings through their app.

'With the right vehicle and relevant solutions, you can get people to engage in workplace savings.'

Payroll administration is done fully in-house at the university and although the additional admin and implementation could be perceived as additional burden, the university did not experience any major barriers.

Conclusions

There are a wide variety of contribution approaches and structures at play among UK employers. Although many employers offer the default minimum contributions, more than we expected offer above-minimum contributions for at least some of their workers.

It's worth remembering that before auto enrolment in the UK, there were big gaps in employee experience of workplace pensions depending on who they worked for. Whilst some employees received generous employer pension contributions, others got nothing. Auto enrolment has greatly broadened access to workplace pensions, particularly for those working for smaller employers. Now most employees are offered at least a minimum 3% employer contribution into a workplace pension scheme. This was a huge undertaking for many employers and is a great achievement and a good equalisation story.

When auto enrolment was introduced, one question raised in the debate was whether those doing more would level down. This does not seem to have been the case. Employers offering contributions at higher-than-minimum levels seem to have continued to do so. However, access to higher-than-minimum contributions is not evenly distributed. Those benefitting the most tend to be employees working for larger employers, in higher-earning roles, who are already more engaged and who are more likely to be able to afford additional contributions. Auto enrolment has significantly equalised access to workplace pension saving and to employer contributions by lifting the floor for all workers, but significant inequalities remain.

Employer appetite to significantly increase their contribution rates voluntarily, by introducing higher matches or default rates for their own contributions, is limited. Employers are unlikely to view increases as affordable, and they face systemic and contextual barriers in terms of the complexities of making changes to their contribution approaches. However, there may be scope to influence some organisations with clearer messaging to clarify that employers can increase contributions, and that the default minimum rate is not a 'recommendation' and is unlikely to be sufficient for many workers. There is also evidence of some cases where employees are 'leaving money on the table' – where employers have budgeted for the full take-up of matched contributions but where actual take-up is less than 100%. Identifying these employers and encouraging them to promote take-up could create some quick wins.

In those cases where employers may consider doing more, there is an interesting range of views on how to target that support: equally across all workers, to those whose incomes are lowest and who might need the most support saving, or to those who take a more active interest in their savings. More employers may benefit from thinking about contribution structures from the perspective of employee retirement income adequacy – very few currently do this. Greater support could be provided to employers to help them understand the impact of their contribution levels, for example by providing examples to give a benchmark for what effect minimum and above-minimum contributions could have on their employees' retirement outcomes. There is a growing focus on equality in the context of pension contributions and this may encourage more employers to think about distributing their contribution to employee retirement saving more evenly.

There is also a tension between the measures that employers are more likely to take and the dominant thrust of the current policy debate around employer contributions. Most policy recommendations focus on re-balancing default minimum contribution rates, often calling for a move to an equal balance of 6% and 6% from the current 3% employer and 5% employee levels.[41] This clearly places more of the cost of any increase on employers. Given the low likelihood set out in this research that more employers will

[41] For example, see recent calls by the ABI, PLSA and Scottish Widows: ABI, Automatic Enrolment: What will the next decade bring?, June 2022: **https://www.abi.org.uk/news/news-articles/2022/06/automatic-enrolment-action-plan-needed-for-the-next-decade/**
PLSA, WPSC Call for Evidence: Saving for later life – PLSA Response, February 2022: **https://www.plsa.co.uk/Policy-and-Research/Document-library/WPSC-Call-for-Evidence-Saving-for-later-life-PLSA-response**
Scottish Widows, 2022 Retirement Report, June 2022: **https://www.scottishwidowsretirementreport.co.uk/**

voluntarily seek to rebalance in this way, changes to the mandatory minimum contribution framework may be the only path to achieve that in the near-term. If this was to be the case, this research suggests that the greatest pressure would be on smaller employers in terms of both the actual cost of contributions and the implementation challenges, and therefore that they would benefit from targeted support to cope with any changes. Additionally, a higher minimum rate may not be appropriate for all workers if shorter and longer-term financial security needs are considered holistically. We would advocate for consideration of whether such an increase in pension contributions is the right priority for everyone, particularly those on the lowest incomes. We have also suggested that safety valves for lower earners be built into any such move, including potentially the option for part of any increase to be put towards an emergency savings fund first.

In the current economic context, it is not surprising that in contrast to the focus in the policy debate, employers are most interested in innovations that help their employees to contribute more without requiring higher contributions from the employer themselves. Auto-escalation of employee contributions, and setting the default for the employee contribution higher, with the right to opt down, both appealed to employers trying to balance their costs with a real interest in the adequacy of their employees' retirement savings. While these mechanisms move further from the 'equal contributions' goal of some policy recommendations, they may well be appropriate for many workers. Again, employers should start where possible from an assessment of employee need and likely adequacy of savings, in figuring out who these models might be more suitable for. We were interested to see the appetite among employers in this research in also supporting shorter-term savings and so again, structures which support some balance for workers between higher pension contributions and some additional more accessible saving may represent an attractive way through. Although the ecosystem around contributions can be a 'brake' on change, there are also opportunities for it to be an 'accelerator'. For example, payroll software used by small and medium sized employers could be a route to suggesting different structures and approaches such as these and making their implementation feasible for organisations with few resources to make changes to their existing set up.

In the short-term, within a voluntary framework, the expansion of salary sacrifice seems to represent the most promising way to create additional employer contributions to pensions and / or other forms of savings. Salary sacrifice creates cash savings for employers and employees, and these could be wholly or partially directed towards workers' pensions at no additional cost. At present, these savings are often not recycled in this way and greater focus on how to encourage employers to use savings to support worker financial wellbeing would be welcome.

Appendix

A profile of Nest employer contribution levels from analysis of administrative data

Context

Nest provides a workplace pension scheme for 996,000 UK employers[42] of whom around 450–500,000 contribute each month.

All Nest workplace pension schemes have been put in place following auto enrolment in the UK, as Nest did not exist before. Employers that are putting in place a scheme to meet the minimum employer duties are therefore prevalent in the Nest employer population. Similarly new employers and those who are needing to meet their auto enrolment duties for the first time today are quite likely to turn to Nest.

As part of Nest Insight's research on employer contribution strategies, we undertook an analysis of Nest's own administrative data on the contribution strategies chosen by Nest employers when they set up their schemes, as compared to the actual contribution rates being made to Nest on behalf of their workers. We recognised that this would not give a comprehensive picture of contribution strategies being chosen by UK employers, because:

- Nest's data is limited to those employers using Nest as their workplace pension, which include a high proportion of employers whose decisions were driven by the need to comply with auto enrolment requirements.
- For many Nest employers, especially larger employers, the Nest data are limited to a subgroup of workers who are often lower-paid and higher-turnover segments of the workforce.
- Administrative data can only show how an employer configured Nest, not the rationale for doing so. There are also blind spots in our analysis, for instance an employer who appears to make up the full 8% minimum contribution in exchange for a 0% employee contribution may in fact be using a salary sacrifice arrangement, where the employee is in effect still paying the equivalent cost of a contribution.
- The on-screen set-up process that most employers used to configure Nest was historically deliberately designed to guide them towards a simpler set-up, with defaults at the minimum contribution levels.

With these caveats in mind though, we do observe some interesting insights. Six key findings are summarised below.

Sample

This analysis includes only employers who have made at least one contribution in the period March to October 2021. This comprises 507,000 employers making 34 million contributions in this period.

Custom versus default minimum rates

UK employers can't contribute less than 3% of qualifying earnings for any eligible worker who stays enrolled, but when they configure Nest during the set-up process, they can choose to do three things outside the norm:

- Set a more generous standard contribution structure for their whole population, for example8% employer contribution and 0% employee contribution. We call this an 'above-minimum' structure, even if the total contribution is still 8%, because the employer contribution is higher. One reason for this could be that the employer is operating a salary sacrifice approach where the whole contribution is categorised as an employer contribution.

[42] As at July 2022

- Set up more than one contribution structure, either to allow for different rates to be paid on behalf of different groups of workers, or to provide each worker with a range of contribution options. This is done by setting up more than one ‘employee group’.
- Contribute at a different rate from the structure they defined when they set up Nest. This can be seen by comparing the actual contributions paid to the rates the employer originally set up.

By looking at the differences between the legal minimums, the configuration of the employer’s Nest scheme, and the actual rates paid, we can make observations about the choices being made by different types of employers on behalf of different types of workers.

‘Above-minimum’ employers

7% of employers set up at least one ‘above-minimum’ group.[43] We refer to these as ‘above-minimum’ employers, and most of the observations in this paper relate to this minority group. The remaining 92.9% we refer to as ‘minimum rate’ employers.

Key finding 1

Above-minimum’ employers are more likely to set up more complicated contribution strategies, by configuring more than one group.

The table below compares the percentages of employers of each type who set up different numbers of groups.

Table 3: Groups above minimum contributions

Number of groups	% of above-minimum	% of minimum rate	Number of above-minimum contributions	Number of minimum rate contributions
1 group	30%	71%	10,897	332,978
2 groups	36%	19%	12,843	87,867
3 groups	16%	8%	5,860	36,400
4 groups	8%	2%	2,728	7,674
5–10 groups	9%	1%	3,261	5,611
>10 groups	1%	0%	393	373
Total	**30%**	**71%**	**35,982**	**470,903**

Key finding 2

In spite of these more complex strategies, only 20% of these employers paying above the minimum rates are paying different rates for different groups of workers.

43 A further 1.2% of employers are now contributing at the national default rates, but they chose to start doing this right away when they set up Nest, rather than following the standard ‘phased’ contribution rates that ramped up over time from a total of 2%, to the current rate of 8%. They are not included with the ‘above-minimum’ group.

This shows a major difference between the preferences revealed in employers' original design choices when they set up Nest, versus the reality of how they are actually setting contributions for their workers. It needs to be stressed that we don't know whether this is because of employer behaviour, for example uncertainty at the time of set-up or changes of mind at a later stage; or worker behaviour, for example workers staying on a default option even where alternative rates are offered to them.

Key finding 3

Employers paying above the minimum contribution rates tend to pay below the minimum employee contribution rates.

This can be seen in the table below. These data can be read two ways. On the one hand the 'above-minimum' employers are being, on average, more generous to their employees. On the other, this increased employer generosity is being partially offset by lower employee contributions. As a result, the total amount going into their workers' pots is not being increased to the same degree as the increase in the employer contribution.

Employer type	Average employer contribution	Average employee contribution
Minimum rate	3.1%	4.1%
Above-minimum	5.5%	3.8%

Employer and member characteristics

Key finding 4

More generous percentages are going to older, more highly paid workers.

In part, this is because employers paying above the minimum tend to have slightly higher paid workers, but as the table below shows, the differences are marginal. There is also a slight difference in average age, but this does not appear to be significant.

Contribution set up	Average gross salary	Average age
Minimum rate	17.9k	41.0
Above-minimum	21.5k	42.6

The impact of age and salary can be seen more strongly by looking within the workforces of individual employers, and comparing those who are contributing at the average (mode) and those contributing at a higher rate. As the next table shows, the age and salary differences here are much more marked.

Comparison to mode contribution	Number of members	Average employer contribution	Average employee contribution	Average salary	Average age
Less than average	9,048	3.7	2.8	29.1k	38
Average	645,428	4.1	3.2	23.4k	38

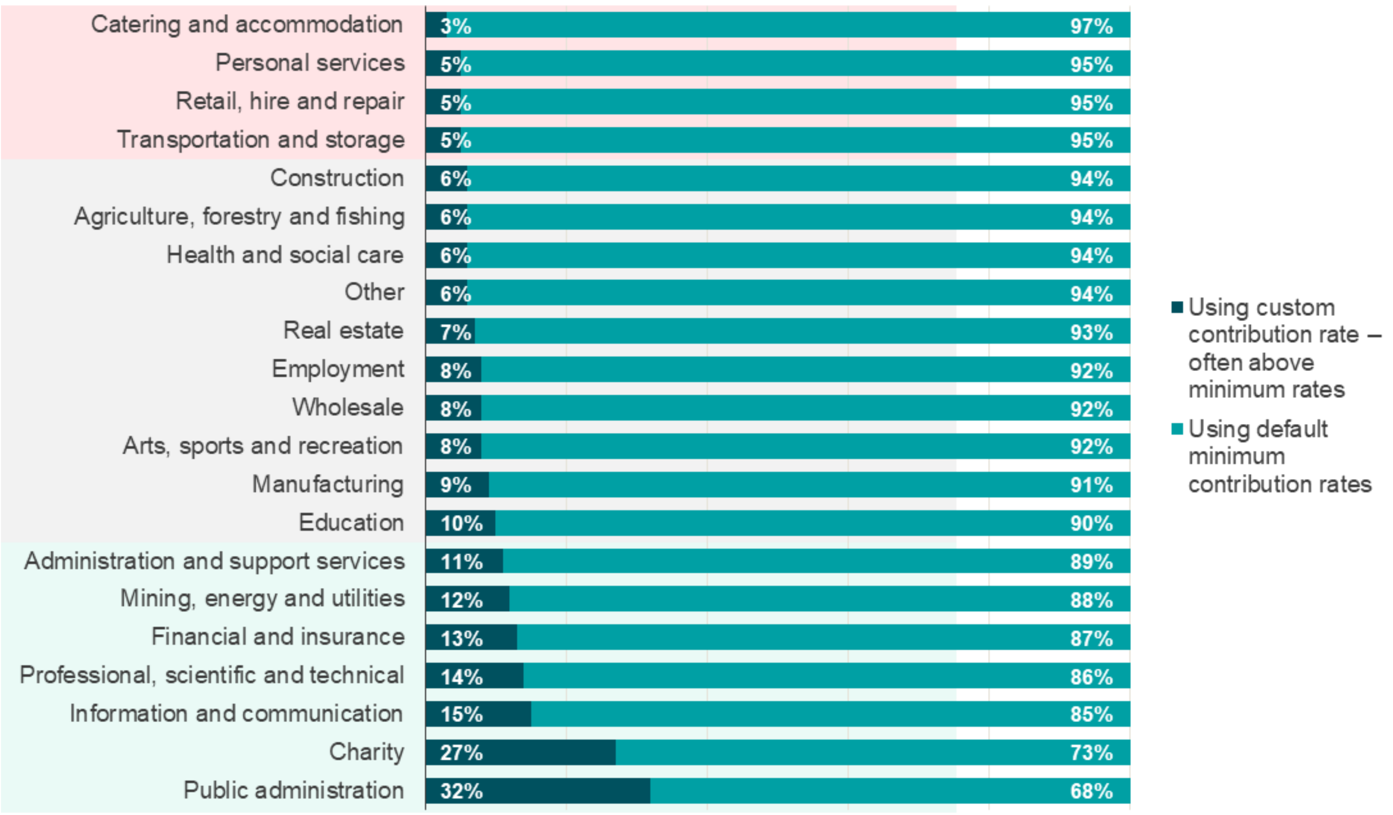
Comparison to mode contribution	Number of members	Average employer contribution	Average employee contribution	Average salary	Average age
+1% to +3%	19,864	6.0	3.2	32.2k	39
+4% to 5%	4,838	6.6	5.2	36.5k	43
6% plus	8,861	10.7	9.1	32.9k	45

Key finding 5

The more significant differences are seen between employers in different industry sectors.

As can be seen from the graph, this is particularly striking in the case of the charity sector where 1 in 4 employers have set up higher contributions.[44] This suggests that altruistic intentions may drive employer choices around contributions, even in a sector where average pay is lower. Other 'generous' industries include Information and Communications, Finance and Insurance, and Professional and Scientific. This suggests that industry norms and benchmarks also have a strong influence on contribution rates.

Figure 26: % of Nest employers setting up custom or using default contribution rates in their Nest workplace pension by industry



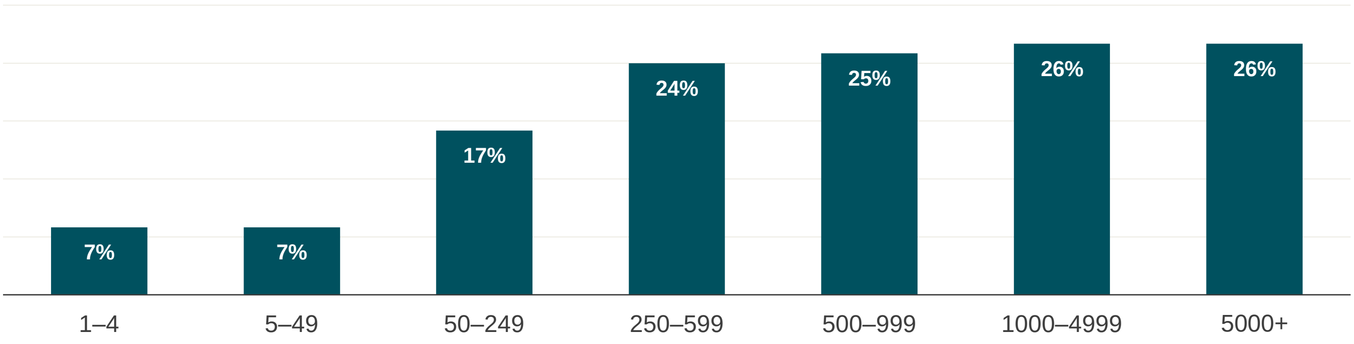
44 The sample size for Public Administration (838) is small but this may offer a further indication of this trend.

Key finding 6

Larger employers have a wider range of contribution structures.

This will be partly because they have a wider range of payment groups and pay structures set up for their employees but also because many will use salary sacrifice (see note on p80).

Figure 27: Proportion of employers contributing above the minimum rate, by employer size



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