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Implementing Automatic Enrolment into Pensions

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About the authors

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Any errors or omissions are the responsibility of the authors.

Summary

This case study looks at the implementation of automatic enrolment, one of the main reforms that emerged from the Pensions Commission in 2005. To address dwindling retirement incomes, automatic enrolment makes it compulsory for employers to enrol staff without pension plans into workplace pensions, but allows individuals to opt out if they wish. This obligation affects some 1.3 million employers and means around 11 million individuals could be newly saving for their retirement by the time implementation is complete in 2018. The success of the policy will depend largely on how well employers navigate their obligations to enrol their workforce into pension schemes. To ensure that there is a viable pension scheme option for low-income savers, government established the National Employment Savings Trust (NEST) – a low-cost pension scheme which must accept all savers regardless of profitability.

Automatic enrolment went live on 1 October 2012 when the largest employers began enrolling their staff. In 2014, large numbers of medium-size employers are 'staging' into their obligation. From 2015 small and micro employers will be required to enrol their employees too.

Our research found that the implementation process has benefited from the Department for Work and Pensions' (DWP) decision to adopt an unusual delivery model for NEST. It set up an intermediate delivery body at arms' length from the department, which was able to recruit people with appropriate expertise and to consult stakeholders on the design of the scheme. There have been some challenges, including the drafting of regulations which were initially over-complex and proved difficult to apply. But together with The Pensions Regulator (TPR), DWP now has a good overview of the implementation landscape as automatic enrolment begins to involve large volumes of employers. The real tests though are yet to come, as large numbers of small employers begin to navigate the pension landscape over the next three years.

Introduction

Context and origins

Against a backdrop of closing 'defined benefit' (DB) schemes, people living longer and the declining value of the state pension, the Pensions Commission was announced in 2002 'to keep under review the regime for UK private pensions and long-term savings and to make recommendations to the Secretary of State for Work and Pensions on whether there is a case for moving beyond the current voluntarist approach'.[1]

The Commission established that the main problem was the fact that 60% of workers, predominantly in the private sector, were saving either too little or not at all and therefore would be forced to rely on the state pension in old age. To address this, the Commission proposed that all employers would be obliged to offer their employees a pension. Employees would be enrolled into a pension scheme by default, although they could opt out. This was termed 'automatic enrolment'. It also proposed the creation of a new low-cost National

[1] DWP, *Simplicity, security, and choice: Working and saving for retirement*, 2002, p. v., retrieved 7 July 2014 from http://www.dwp.gov.uk/docs/gp.pdf

Pensions Savings Scheme (NPSS) for employers to use, to address the unwillingness of the market to serve unprofitable low-income savers. Employers with good existing pension schemes however, would be allowed to continue to offer these to their employees.[2]

The policy model

Automatic enrolment was designed to encourage a retirement savings culture. Employers could use an existing pension scheme or establish a new one. There were several key components to making this happen. First, employers needed to be made aware of their new obligation and prepared in time, with a mixture of support but also enforcement where necessary. Second, the government needed to establish a pension provider that could enrol employees who were previously unprofitable for the pension industry, to make sure there was a pension scheme available for everyone. Third, government needed to decide how to communicate the changes to employees. It decided to do this via a public awareness campaign for employees to ensure they knew the change was coming, and what it meant for them.

Implementation of automatic enrolment has been 'staged' over time. The largest employers began staging in 2012, small and medium employers in 2014, and micro employers later. Virtually all employers will be staged by 2017. Minimum contribution rates are phased in, beginning at a 1% employer contribution and a 1% employee contribution. This will start to rise in 2017, reaching a 3% employer contribution and 4% employee contribution in late 2018. According to the original schedule set out in 2010, all employers would have enrolled their staff by 2015, but a change made in 2011 shifted staging dates such that small employers would only stage in 2016 and 2017.

There are three principal institutions involved in implementation: DWP, specifically the Enabling Retirement Savings Programme team run from the Private Pensions Directorate; NEST Corporation, a non-departmental public body (NDPB) running NEST, a low-cost pension scheme; and TPR which is responsible for ensuring employer compliance. Their roles are as follows:

- **DWP** developed the legislation and regulation – from the initial policy response to the Pensions Commission to the detail of employer regulations. Currently it plays the role of project manager, maintaining a whole-project view of ongoing scale-up of automatic enrolment across NEST, TPR, and the service industries supporting employers. It is also responsible for the marketing campaigns for automatic enrolment that are designed to raise employee awareness.
- The **Personal Accounts Delivery Authority (PADA)** was established in 2007 as a non-departmental public body (NDPB) specifically tasked with designing and building the new pension scheme. This was completed in 2010 when the **National Employment Savings Trust (NEST)** came into existence and PADA was therefore wound up. NEST is a pension scheme with a public service obligation to take on any employer without regard to the profitability of individual members. NEST is run by its

[2] The story of the Pensions Commission and its context are set out in more detail in *Pensions Reform: The Pensions Commission (2002-06),* Institute for Government, 2011, retrieved 7 July 2014 from http://www.instituteforgovernment.org.uk/sites/default/files/pension_reform.pdf

corporate trustee the **NEST Corporation**, an NDPB which is financed by pension charges, a start-up loan and an annual grant covering its public service functions.

- **The Pensions Regulator** is responsible for maximising employer compliance. It ensures this by communicating with employers and taking enforcement action where necessary. Employers notify their compliance with automatic enrolment to TPR. The monitoring, compliance and communication strands rely on a set of high-volume transactional systems for recording and monitoring activity, responding to employers' queries, and targeting communication to employers. These high-volume transactional services are outsourced to Capita.

The tasks of assessing employees' eligibility and level of contributions, contracting pension schemes, enrolling employees, and deducting contributions, are being were left to **employers**, although many use intermediaries or advisers, for example to select a pension scheme. Employers are also responsible for providing information to employees. Many employers outsource **payroll, HR and accounting** – functions affected by automatic enrolment – to external providers, which means that these industries also needed to prepare for automatic enrolment. Once they have enrolled their staff, all employers have to report to The Pensions Regulator on the numbers enrolled.

The challenges

With this policy model, the department had to deal with several key challenges to make the policy work. As the narrative below makes clear, not all of them were identified at the time. Key challenges were to:

- identify and deploy the capability required for delivering a private pension scheme that could handle a high volume of transactions from employers
- strike the right balance in legislation and regulations between protecting employees and minimising the burden of compliance for employers – and getting implementation underway while some of these questions were unresolved
- take steps to minimise the opt-out rate from employees, by informing and reassuring them about the transition to automatic enrolment while maintaining the effectiveness of 'inertia' to reduce opt-outs
- establish a timetable that allows employers, providers, and supporting industries to prepare and manage the administrative burden they would face to comply with the regulations
- manage political uncertainty resulting from the long implementation timetable coinciding with general elections in 2010 and 2015, and from a lack of stable agreement across departments and ministers.

Impact

In an evaluation of the first year of automatic enrolment, published in November 2013, DWP reported that 3,000 employers had enrolled more than 1.9 million individuals into pensions, with an average opt-out rate of around 9%, which was lower than the expected 30%.[3] By July 2014, The Pensions Regulator reported that almost 18,000 employers had enrolled

[3] DWP, *Automatic Enrolment Evaluation Report 2013,* Gov.uk website, 2013, retrieved 7 July 2014 from https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013

more than 3.9 million employees who had not been saving previously, and registered another 8.4 million employees who were already members of a qualifying scheme.[4]

Nevertheless, as all those involved with the project are well aware, the biggest challenge in terms of volumes is yet to come. In 2014 automatic enrolment is moving into staging medium-sized employers, with some 30,000 employers enrolling their staff between April and July. After 2015, when small employers begin to stage, we will see roughly that number of employers staging every month.

The story of automatic enrolment

Timeline: Key moments in the implementation of automatic enrolment[5]

2005

November: Pensions Commission published second and final report, recommending NPSS and automatic enrolment to start in 2010.

2006

February: Pensions Minister, Stephen Timms issues challenge to the pensions industry to come forward with private-sector alternatives to delivering pension reform.

March: National Pensions Debate culminates with National Pensions Day. Pensions industry presents alternatives to NPSS.

May: First private pensions White Paper, *Security in Retirement* is published by DWP. Implementation date set for 2012.

December: Second White Paper, Personal Accounts, published by DWP

2007

July: Pensions Act 2007 creates the Personal Accounts Delivery Authority

2008

November: Pensions Act 2008 introduces automatic enrolment duties for employers

2010

June: Making Automatic Enrolment Work Review (MAEWR) announced by Coalition

July 2010: NEST Corporation is established and PADA is wound up.

October: Making Automatic Enrolment Work Review is published, recommending modifications but confirming go-ahead for automatic enrolment and NEST.

October: Pensions Act 2011 implements changes proposed by MAEWR.

2011

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[4] The Pensions Regulator, *Automatic Enrolment Registration Report*, June 2014, retrieved 8 July 2014 from http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report.pdf

[5] For a detailed timeline as it relates to NEST, see *The Story So Far – A timeline of pensions reform and NEST*, NEST pensions website, 2013, retrieved 7 July 2014 from https://www.nestpensions.org.uk/schemeweb/NestWeb/public/whatIsNEST/contents/our-story.html

March: NEST announces its investment approach, having already announced charging levels and most fund administration arrangements.

October: the first 100 volunteer employers sign up to enrol staff into NEST.

2012

January: Revised timetable for automatic enrolment of small employers is published.

March: The first 100 volunteer employers have enrolled staff into NEST.

1 October: First day of automatic enrolment duties, starting with large employers.

2013

October: One-year-on evaluation shows opt-out rates are lower than expected.

November: Changes to regulations following engagement between payroll industry and DWP.

2014

April: First medium-sized employers begin automatically enrolling staff.

Developing the model

Making design choices

When the Pensions Commission reported to the Secretary of State for Work and Pensions in 2005, it was the responsibility of DWP to respond to its recommendations. DWP had the advantage of having done work alongside the Pensions Commission prior to the publication of the Commission's final report, anticipating some of its emerging recommendations. Although DWP officials had been officially kept at arms' length from the Commission, they had in fact contributed some of the research and thinking on automatic enrolment. Nevertheless, making specific policy choices in response to the Commission's recommendations was challenging for the department. The department needed to make choices about how to deliver the reform recommended by the Pensions Commission, and had to respond to a set of proposals offered by the pensions industry for an alternative model of automatic enrolment. Caroline Rookes, Director of Private Pensions in DWP who was responsible for the project from 2005 to 2013, told us:

> The trouble is 'you don't know what you don't know'… As an SRO, I wouldn't have necessarily identified the extent to which we needed that private, that commercial expertise, which I just didn't have… we were trying to work out the model for the delivery of NEST. We were under pressure to look at private sector models, as well as public sector models and I had no one who had ever done anything like that in the team.

To make decisions about the model for delivering the reform, the department drew on the commercial expertise it did have internally, notably by involving DWP's then Commercial Director, David Smith. In addition, James Stewart, CEO of Partnerships UK, was brought onto the project board.[6] DWP also used external consultants to help support some of these decisions, for instance for evaluating the alternatives proposed by the pensions industry.

[6] Partnerships UK was a public body responsible for public-private partnerships and had experience with large commercial projects. Stewart had run it since its inception in 2000.

From the Pensions Commission to NEST

The final model for automatic enrolment, as legislated in the 2008 Pensions Act, was somewhat different from the Pensions Commission proposal and from the model adopted by government in its second white paper. The Commission recommended that the state-established provider should be the default for employers without existing provision. By contrast, the government model allowed employers without an existing pension scheme to establish one with any provider rather than only with the state established provider, NEST. This shift in approach was driven at least in part by a wish to avoid time-consuming legal challenges that may have been brought by the pensions industry on competition grounds.

In terms of implementation, this meant that *employers* would have to select a provider, establish a pension scheme and work out whom to enrol and what contributions to make. By contrast, one of the options proposed by Adair (now Lord) Turner saw the state acting as an intermediary between employers and the fund industry, with individuals making choices about their pension savings. This approach, which was inspired by the New Zealand system, would be less demanding for employers to operate.

DWP also decided early on that the system would come into effect in 2012, rather than in 2010 as the Pensions Commission had suggested. An earlier date was judged unrealistic given the need to pass legislation and develop regulations.

Deciding to build capacity

DWP then had to hammer out the specifics of delivering the low-cost pension scheme. DWP had been the traditional owner of pensions policy in government, responsible for policy and delivery of the state pension and for the majority of private pensions policy. As such, the department had some understanding of pensions but it did not have enough in-depth expertise to take on the establishment of a new pension scheme – and this expertise was unlikely to be found elsewhere in government.[7] To remedy the lack of specific expertise, DWP decided to establish a dedicated delivery authority at arms' length from government, the Personal Accounts Delivery Authority (PADA), to design and deliver the new pension provider. As Alan Woods, then Director for Pension Reform in DWP explained, this choice had two advantages: first, allowing the right expertise to be brought in, because 'none of us really knew how to manage a large-scale private pension scheme and we couldn't imagine [there was] anyone else in the Civil Service who did'; second, making the new scheme visibly separate from government would build confidence in the new system since 'there would be an awful lot of difficult decisions to be made and many of these were better kept from ministers'.

Woods summed this up.

> Having some people who could say with considerable weight and authority, "With our experience of running these sorts of things in the private sector, this is what you need to do and we will take public accountability for this", seemed hugely more attractive than good-intentioned civil servants and ministers trying to do this thing themselves.

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[7] The Pensions Commission did suggest that government might want to consider delivering the pension scheme through National Savings & Investments, which had experience in providing financial services and specifically savings products.

The institutional form for PADA was partly inspired by the Olympic Delivery Authority, set up to deliver the infrastructure for the Olympic Games. Several interviewees told us that the suggestion to adopt this model came from James Purnell, then Minister for Pensions, who had been a junior minister in the Department for Culture, Media and Sport during planning for the Games and had seen the value of such a set-up.

Allocating roles

The last component of the delivery system that needed to be decided was the regulatory and enforcement function that would ensure that employers complied with their obligation to enrol employees into qualifying pension schemes and to make their contributions. The 2008 Pensions Act allocated responsibility for ensuring compliance to The Pensions Regulator (TPR). Since compliance with automatic enrolment relates to employers more than it does to pensions providers, the decision to entrust the Pensions Regulator with this role was not a foregone conclusion as it would take TPR considerably beyond its existing remit.

DWP considered HM Revenue and Customs (HMRC) as an alternative. Employers expressed a preference for HMRC because it would have allowed pension payments to operate through ‘Pay As You Earn’ (PAYE).[8] However, at the time HMRC was grappling with problems of data loss – it had recently mislaid its child benefit claimant data.

One interviewee also told us that there was ‘a sense that the Treasury was reluctant for one of its delivery arms to be responsible for this when it had other priorities’. Another factor that contributed to the decision was the difficulty of engaging HMRC in the issue early on. The Pensions Regulator, by contrast, was an NDPB sponsored by DWP. It could therefore be obliged to take on this new responsibility.

Putting the implementation architecture in place

By mid-2007 DWP had finalised its approach to implementing personal accounts. It now needed to begin clarifying what it expected implementers to do and to organise itself and its partners to be able to launch automatic enrolment and the new pension scheme in 2012.

Finding leaders, getting noticed

Having established PADA in legislation, DWP needed to find leaders to build the organisation. Paul (now Lord) Myners was appointed as the first chair of PADA, bringing with him extensive experience of the financial services industry. He had also been chairman of Marks & Spencer. He led the effort to recruit a chief executive. Leigh Lewis, the Permanent Secretary of DWP sat on the selection panel, which signalled the importance that the department attached to the role. They hired an experienced retail banker, Tim Jones, to be the first Chief Executive of PADA and he later became the CEO of NEST. Jones has remained in post throughout the project and by all accounts has been vital for the delivery of the new pension scheme. The permanent secretary’s clear indication, that he expected senior leaders to provide continuity and commitment to their roles, has contributed to the fact that Tim Jones and other leaders have stayed in their posts for long periods of time that are unusual in the Civil Service.

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[8] DWP, *Personal Accounts: A new way to save – summary of responses to the consultation*, 2007, pp. 73-4, retrieved 7 July 2014 from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/243270/7121.pdf

Even though the departmental leadership paid close attention to recruiting the head of PADA, it took time to establish the place of the project more firmly within DWP. Initially automatic enrolment was seen as a niche and relatively low-risk project, partly because it was atypical in the department in that the bulk of delivery was not run in-house. Caroline Rookes told us: ‘It wasn’t part of normal departmental operational structure, so we were left alone at the beginning. I don’t think the top of the office appreciated the scale of the challenge until [the Treasury] got involved.’ This was partly overcome with the support of the Treasury, which helped raise the profile of the project in the department through a Major Projects Review Group stocktake in 2007.

Clarifying roles

It took some time and effort to establish the project management and governance structure in the department as well as in the delivery system as a whole. For instance, the relationship between the DWP and PADA was initially complicated by a set of frictions arising in part from DWP’s lack of clarity about roles, and in part from a clash of cultures. This arose from the fact that people brought into PADA from outside government were not made sufficiently aware of the constraints they would face in the public sector.

Tim Jones, PADA’s commercially-minded new chief executive was unfamiliar with the constraints of leading an arms-length body in government and felt he wasn’t given the autonomy he needed to do his job.

> When I got into the job, I found it wasn’t what I had expected. As a CEO in the private sector you expect to be able to get things done by creating the network of people you need to deliver. You can hire and fire – you are recruited for your ability to deliver through people. I was told I could not do this. The government doesn’t know this is a problem because it hasn’t seen it from the other side. I was asked to take on far larger risks than I was prepared for in terms of working with a team I had no knowledge of.

But from the civil service side the view was, as one official told us, that ‘Tim thought he’d been handed this thing to deliver and he could just go away and deliver it, but, of course, with the government connections, the politics and all the rest of it, that wasn’t possible.’

A broader clash of private and public sector cultures was also at play. Caroline Rookes told us that she had ‘never managed a programme of this size, with people from the private sector, and I suppose never really appreciated how different the worlds were until we were right there in it’. Another research participant recalled that staff from PADA, having decided the civil servants were not as good at planning and project management, wanted to plan the process of drafting a bill and getting it through Parliament. Charlotte Clark, who was then part of the DWP team, described a situation in which this tension came to the surface.

> We told [staff from PADA]: ‘We have a deadline by Parliamentary Counsel. It will be introduced on October 13th. It will have to happen by then because that’s the deadline from Parliamentary Counsel.’ Their response was, ‘No, it won’t. If you look at what you’ve done so far and how much you have left to do – that’s not deliverable’. But that’s what happens in policy: it’s not a particularly smooth process and it happens in fits and starts and we did meet the deadline.

Clashes may have arisen because DWP did not clearly delineate the role of PADA, in part due to uncertainty about how the new pension scheme fitted into the broader implementation landscape of automatic enrolment. At one point DWP even considered moving the management of the whole project into PADA, but it was ultimately decided that this would narrow the focus too much onto delivering the pension scheme whereas DWP needed to maintain an overview of the automatic enrolment project as a whole – including developing the regulations and communicating with employers and individuals. However, some of the ambiguity of roles is inherent in the policy and it is something DWP has to manage. Even today, NEST is both DWP's delivery partner and a pension scheme active in a market stewarded by DWP.

Building relationships

Nonetheless, these tensions were navigated by DWP as they clarified their policy approach and the roles each organisation would play. Getting the governance right helped to firm this up – particularly when the team settled on a project board, chaired by the departmental project SRO, with CEOs from PADA and TPR as members. But there was also a lot of what Tim Jones described as 'good old-fashioned relationship building'. The respective leaders clarified between them their roles and built trust as they worked together. Additionally, Treasury project reviews served as an opportunity to step back and think about what parts of the governance structure needed to be put in place. Finally, Paul Myners and Jeannie Drake, the successive chairs of PADA, had the skills and credibility to handle the relationship between ministers and the delivery body. As one former senior official told us, Paul Myners 'clearly had a lot of clout and could argue his case with ministers' and the same applied to Jeannie Drake.

The Pensions Regulator also needed to gear up for its expanded role. Some of TPR's management were initially uncertain whether their organisation was best placed to take on the new employer compliance role which would mean building up a whole new part of the organisation. But by 2012 'there was no suggestion that they didn't want it, the attitude there is very positive about it', as Hannah Malik, who currently manages the programme, put it. To help it adapt to its task, TPR recruited some key people from outside, including people who had worked on the launch of New Zealand's KiwiSaver, which was similar to automatic enrolment. It also needed access to HMRC's data on companies to monitor employer compliance. While it was able to gain access to this data, one research participant said that 'this kind of connectivity does not happen naturally' and relied on strong relationships. Leigh Lewis, he permanent secretary, and Caroline Rookes, and the director running the programme, used their personal contacts to access the right people in HMRC and secure their co-operation.

Managing the Treasury

There were some challenges around managing the Treasury and its continuing concerns about automatic enrolment, which generated uncertainty for the project. First, leaders in DWP needed to engage with the Treasury's Major Project Review Group. As described above, this was a valuable process that helped raise the profile of automatic enrolment in DWP. But nonetheless, some research participants told us that these stocktakes 'took a lot of servicing'.

Additionally, both Gordon Brown and Alistair Darling, during their respective time as Chancellor, were sceptical about the pension reforms at various points. Indeed, Treasury insisted on another review in mid-2009 on whether to proceed despite the policy being already settled in 2008. One research participant told us that Yvette Cooper was very willing to stand up and defend the policy and firmly rejected any suggestion that the project be cancelled, despite having only recently taken up her post as Secretary of State for Work and Pensions.

Finally, Treasury officials were also apprehensive about the project in public finance terms and worried that the cost of setting up NEST would exceed the estimates. The issue was settled by an agreement between the permanent secretaries of the Treasury and DWP that the Treasury would guarantee the money needed for the start-up loan. Treasury concerns also influenced the 2011 changes to the staging timetable (described in more detail below) and the design of NEST's charging structure.

Setting the rules

After the 2008 Pensions Act, DWP had to design the regulations governing automatic enrolment and employer duties, including: how eligibility and contributions would be calculated; how enrolment and opt-outs would work; and how existing pension schemes would be certified as compliant with the new requirements. These were areas where the department had little internal knowledge. To overcome this, the department engaged with trade bodies to gain insight into the perspective of their stakeholders. While this was a valuable activity, some interviewees told us that it would have been even more beneficial to engage with working-level implementers such as payroll professionals and providers directly. Engaging with high-level representative groups such as trade bodies helps identify in-principle objections but does not necessarily improve government's understanding of whether things will work in practice. Alan Woods told us, 'When there were no objections we perhaps assumed our approach would be fine without standing back and saying, "What is this going to be like to operate on the ground?"' Some research participants, however, doubted that the challenges could ever have been identified until implementation was underway.

It was certainly the case that DWP initially found it difficult to understand the complexity of the task from the employers' point of view, and underestimated the significance of payroll. The department also struggled to find a balance between employee protection and burdens on employers when drawing up regulations. Its starting assumption was that employers were likely to try to evade their obligations, and DWP's own analytical tools, notably the model they used to estimate the impact of various options on pension coverage and adequacy, also encouraged the department to think about employee protection at the expense of understanding the burdens on employers. The result was a set of regulations that employers and payroll professionals considered too complicated and difficult to implement, which eventually had to be amended after they first went live. Indeed, one area of regulation – on certification of defined contribution pension schemes – received such a critical consultation response that the department had to admit that 'the proposed regulations just didn't work'.[9] Angela Eagle, the then Minister for Pensions, took what officials saw as the brave decision to admit the need for change and start afresh.

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[9] Jones, L., 'DWP scraps auto-enrolment certification rules', *Money Marketing*, 12 January 2010, retrieved 8 July 2014 from http://www.moneymarketing.co.uk/dwp-scraps-auto-enrolment-certification-rules/1004828.article

Building a pension scheme

Although PADA initially acted as an advisory body, in early 2008 it soon shifted into its executive phase and started working towards the launch of a new pension scheme. The success of this phase depended on having a realistic plan for delivery. When PADA was set up in 2007, DWP had already committed to starting automatic enrolment in 2012 and had a plan in place for delivering the pension scheme. But Tim Jones made it clear in early 2008 that a re-planning exercise was needed, on the grounds that March 2012 was too late to launch a scheme that would have to start accepting the first stage of automatic enrolment employers only a month later. He argued that employers would not trust an organisation that had only been in place for a month, it would need to have been established much earlier. There was a lot of resistance to changing the timetable, but Tim Jones's credibility allowed him to prevail. The final plan agreed that automatic enrolment would launch in October 2012 – six months later than originally planned – but the pension scheme should be operational in small volumes from 2011. (Based on recommendations made by an external review in 2010, discussed below, companies were allowed to start enrolling staff from July 2012 if they wished.)

Putting the infrastructure in place

Once the timetable was in place, the critical task for PADA was to procure an IT platform and transactional services – the back-office functions, customer-facing IT, and customer call-centre – while concurrently designing the savings product it would offer to employers.[10] It had to accomplish these tasks at the same time as DWP was still working through the details of the regulations. The major constraint was not only the legislative requirement to have a fully functional pension provider in October 2012, but that it had to be able to accept some 250,000 members on day one, which was the estimated maximum number of employees who would be expected to enrol when implementation went live.

The new pension scheme had to be able to not only run at massive scale on the launch date, but it also had to win the trust of its prospective clients despite being brand new. This was a rarity in either public or private sector: one of our interviewees characterised the task as 'building a major corporate start-up from scratch' and underlines the achievement of having delivered it successfully. For instance, PADA had to procure a £600 million, ten-year contract for a large-scale financial services platform that would be able to deal with high demand from the outset. Even large private sector corporations rarely undertake exercises of this kind. Tim Jones described his experience: 'In the private sector, to go out and spend that kind of money on something that is not proven – that's a very short conversation: "No".'

The process of procuring the platform that would underpin the operations of the new pension provider demonstrated the value of PADA's arms'-length status. One interviewee said, 'They had the skills that Tim, as someone who's used to doing this sort of thing, recognised were needed, which I wouldn't have probably recognised.' While the DWP commercial team initially suggested engaging with what Tim Jones called 'the usual suspects', PADA was able to recruit people with experience of procuring and implementing large financial services

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[10] Hayward, D., 'Buyer Case Study: How IT Services and BPO Helped create the UK's universal pension scheme', Tata Consultancy Services website, IDC, London, 2012, retrieved 8 July 2014 from http://www.tcs.com/SiteCollectionDocuments/Case%20Studies/Insurance-Casestudy-IDC-NEST-IT-Services-BPO-Universal-Workplace-Pension-Scheme-UK-1212-1.pdf

platforms. This meant they were able to specify requirements and run the procurement process in a way that yielded a provider – a UK subsidiary of Tata Consultancy Services – and a relationship that they could have confidence in.

Even though there was political consensus among the major parties on pensions reform, PADA also wanted the procurement process completed before the 2010 election to minimise the effect of political uncertainty on the bidding process and to make sure that this crucial piece of the architecture was in place. This forestalling of potential political change was beneficial in project terms, but it understandably raised a degree of political controversy in the light of conventions on pre-election commitments.[11]

Designing a new savings product

In parallel to setting up the delivery infrastructure, PADA was also able to consult widely on the nature of the savings product it should offer, to ensure it would be right for those not served by the existing market. This included consultation on the charging structure, investment strategy, and options for drawing down the funds in retirement. These consultations helped PADA understand its target market and design an acceptable product. Some decisions about the pension scheme, however, needed to be made by government, and here again ministers played a valuable role as final decision makers. When it came to creating a brand for the pension scheme, PADA made an initial proposal to call it ACORN, which according to Tim Jones, Angela Eagle (Minister for Pensions at the time) 'argued against as a brand, and she was right.' The team went back and came up with NEST, which both Angela Eagle and Tim Jones considered a much better outcome.

Sustaining progress beyond one parliament

From the start, there was broad consensus on the merits of automatic enrolment across political parties and key stakeholders such as the unions and the pensions industry. This was, in part, a legacy of the Pensions Commission which got all the key stakeholders on board in the first place. But government politicians also maintained regular engagement with their opposite numbers, especially early on, to ensure that the opposition understood what was happening and the reasons for particular decisions. Ministers also initiated a series of private meetings attended by government and opposition politicians as well as officials, which took place in 2008-09 as the key decisions were made. Research participants described these sessions as 'very unusual' as well as 'very productive', in the words of Alan Woods.

Although there was cross-party consensus on the principles of the Pensions Commission's recommendations, some disagreements about automatic enrolment emerged in the run-up to the 2010 election. Specifically, the Conservatives criticised aspects of the policy including the staging timetable and the ability of government to 'deliver another large-scale IT project'. They challenged the decision to procure the NEST platform system shortly before the election, contrary to Labour's pledge to put large contracts on hold. In a paper on pensions, the Conservatives pledged to 'review the Personal Accounts/NEST project'.[12] Research participants told us they felt that the then Conservative opposition was more agreeable to

[11] Timmins, N., 'Indian IT group in lead for pensions contract', *Financial Times*, 3 March 2010, retrieved 8 July 2014 from http://www.ft.com/intl/cms/s/0/872cb9dc-2663-11df-aff3-00144feabdc0.html#axzz30SdE9o4x

[12] May, T., *Providing for Pensions: Principles and Practice for Success,* Politeia, 2010.

automatic enrolment and NEST than their public pronouncements suggested. But the political positioning created uncertainty for implementers, for instance complicating the recruitment of appropriate people to NEST.

Reviewing automatic enrolment

Just after the Coalition government took office, Steve Webb, the new Minister for Pensions, asked Paul Johnson, Adrian Boulding, and David Yeandle – who brought together expertise on the economics of pensions as well as industry and employer experience[13] – to conduct a review of automatic enrolment, called Making Automatic Enrolment Work Review (MAEWR). The review looked at the scope of automatic enrolment, considering which employees (by age) and which employers (by size) should be included. It also considered what could be done to make implementation easier, including revisiting the role of NEST. When the review reported in October 2010, it confirmed the need for NEST and highlighted that government had to take responsibility for communicating the availability of NEST to employers. It recommended adjusting several parameters of automatic enrolment to simplify implementation, for example introducing a waiting period so employers did not have to enrol employees who quickly leave organisations. The review rejected the idea of exempting micro-employers from automatic enrolment.

The review was a mixed blessing for implementation. Given that it was tasked with determining whether NEST was needed, its conclusion that NEST should remain in place was much less disruptive than it could have been. Its recommendations on technical parameters also made implementation less burdensome for employers. Yet parts of the project had been effectively put on hold during the review, after which, as one interviewee put it 'the politicians came back and said "great, go away and deliver what we previously asked for to the same timetable"'. The team had predicted and built in the possibility of political disruption, so this was less damaging to the timetable than it might have been.

Getting 11 million individuals and 1.3 million employers on board

As the delivery system came together, government started the job of raising the profile of the upcoming changes with employers and individuals.

In an ambitious but successful move, DWP retained responsibility for communicating automatic enrolment to employees as well as for the mass communication to employers, which was done through a strong national campaign. It started planning the campaigns just as Cabinet Office spending controls on departmental communications came into force. Convincing others of the need for a large publicity campaign was not easy. There was an argument that as the success of automatic enrolment relied on inertia, there was no need to communicate it to individuals. But DWP research showed that high enrolment rates were unlikely without further support, which helped make the case. Sarah Healey, then DWP Director of Private Pensions, explained, 'If you spring it on people, they get scared. If they don't know what's happening to them, they are much more likely to opt out.'

The communications campaign was underpinned by behavioural insights research into how best to make individuals aware of automatic enrolment, although this needed not to disrupt

[13] Paul Johnson then worked at Frontier Economics and was a Research Fellow of the Institute for Fiscal Studies. Adrian Boulding was, and still is, Pensions Strategy Director at Legal & General, and David Yeandle was Head of Employment Relations at EEF.

the 'inertia' that the department believed would stop people from opting out. This involved quite detailed research, for example into how the content of the opt-out letter should be designed to provide just enough information not to undermine the effect of inertia while retaining individuals' trust. While the core of the campaign was developed in house by the DWP communications team, the department hired external firms where needed and used innovative channels to reach relevant segments of population. This involved advertising in media that traditional government communications might find risky or unusual, including a partnership with *Closer* magazine.[14]

The Pensions Regulator was responsible for communicating automatic enrolment to employers on an individual basis. Indeed, this was critical for achieving its objective of maximising employer compliance. It based its own approach to compliance on the idea of 'contingent consent', in which employers know they could be sanctioned if they wilfully fail to comply but which sees the principal job of the regulator to enable compliance through support and information rather than threats.

TPR's communications with employers were based on engagement and extensive research into how aware of automatic enrolment different employer groups were, and how well they understood what they needed to do. Research participants who were on the receiving end of TPR's communication and engagement activity told us that TPR had a positive impact on communications once it started to play a role from 2011 on. They found the regulator very willing to engage and listen.

Refining the rules, getting off the ground – and refining the rules again

In late 2011, relatively close to the launch of automatic enrolment, the staging timetable was revised so that small employers, who were originally due to join between 2014 and 2016, would only start after 2015, which shifted their staging date beyond the 2015 election. At the same time, phasing in minimum contributions was delayed by a year.[15] While the public explanation of the change focused on the need to give employers time to prepare, research participants told us that the change to the timetable also helped assuage the Treasury's concern with the impact of automatic enrolment on tax revenue, as new pension contributions qualified for tax relief.

Going live

In October 2012, the first employers started automatically enrolling their employees. These were large employers with more than 120,000 employees, including the large retail chains and banks. Only about 25 employers were scheduled to enrol in each month between October and December 2012, but this covered about 1.7 million employees over the period. Some employers decided to enrol their employees before the national launch date of

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[14] Morrison, B., 'How a small nudge is helping people save for their retirement', *Civil Service Quarterly blog*, Gov.uk website, 22 October 2013, retrieved 8 July 2014 from https://quarterly.blog.gov.uk/2013/10/22/how-a-small-nudge-is-helping-people-save-for-their-retirement/

[15] DWP, 'Government announces changes for small business to the automatic enrolment timetable', DWP press release, Gov.uk website, 28 November 2011, retrieved 8 July from https://www.gov.uk/government/news/government-announces-changes-for-small-business-to-the-automatic-enrolment-timetable

October 2012, an option recommended by the Making Automatic Enrolment Work Review in order to allow government to monitor any early problems.

With automatic enrolment officially live from October 2012, employers and the support industries (notably payroll providers and payroll software vendors) began to notice some complications with the regulations. These mainly concerned the prescribed definitions of pay that employers used for deciding which employees to enrol and whether their existing pension scheme qualified for automatic enrolment; and the prescribed timing for communicating with employees. These technical definitions in the legislation did not accord with those used by employers in their existing payroll and pension systems, and the prescribed time frames were difficult to apply consistently to employees with diverse work patterns.

The payroll industry and payroll software vendors raised the shortcomings in the automatic enrolment regulations directly with the Pensions Minister, Steve Webb, in early 2013 by addressing a letter to him, and meeting with him to discuss technical changes that DWP should make to enable employers to implement automatic enrolment. The minister asked officials to work out what changes would need to be made, and the resulting refinements were announced after consultation in October 2013, with amended regulations taking effect in November, in time for the vast majority of employers to benefit from the simplification.[16]

Multiple priorities

Employers and supporting industries also had some difficulties with the implementation of automatic enrolment because of the attention they had to devote to Real Time Information (RTI) – HMRC's changes to PAYE. RTI and automatic enrolment were two of the largest changes to the working of payroll systems in recent years, and government introduced both within months of each other, with RTI preceding automatic enrolment. The need to prepare for RTI made it difficult for payroll providers to focus on automatic enrolment as early as they might have liked. According to Caroline Rookes, 'It was difficult to get into HMRC at the time to talk about how auto-enrolment was going to fit with Real Time Information changes.'

This lack of engagement with HMRC early on meant that DWP could not predict that automatic enrolment would be fighting RTI for the attention of employers and payroll providers. With two major changes scheduled to affect the same groups within a short space of time, some research participants told us that it would have been beneficial to do more co-ordination between the two departments to minimise implementation risks and reduce burdens on employers.

Managing the scale-up

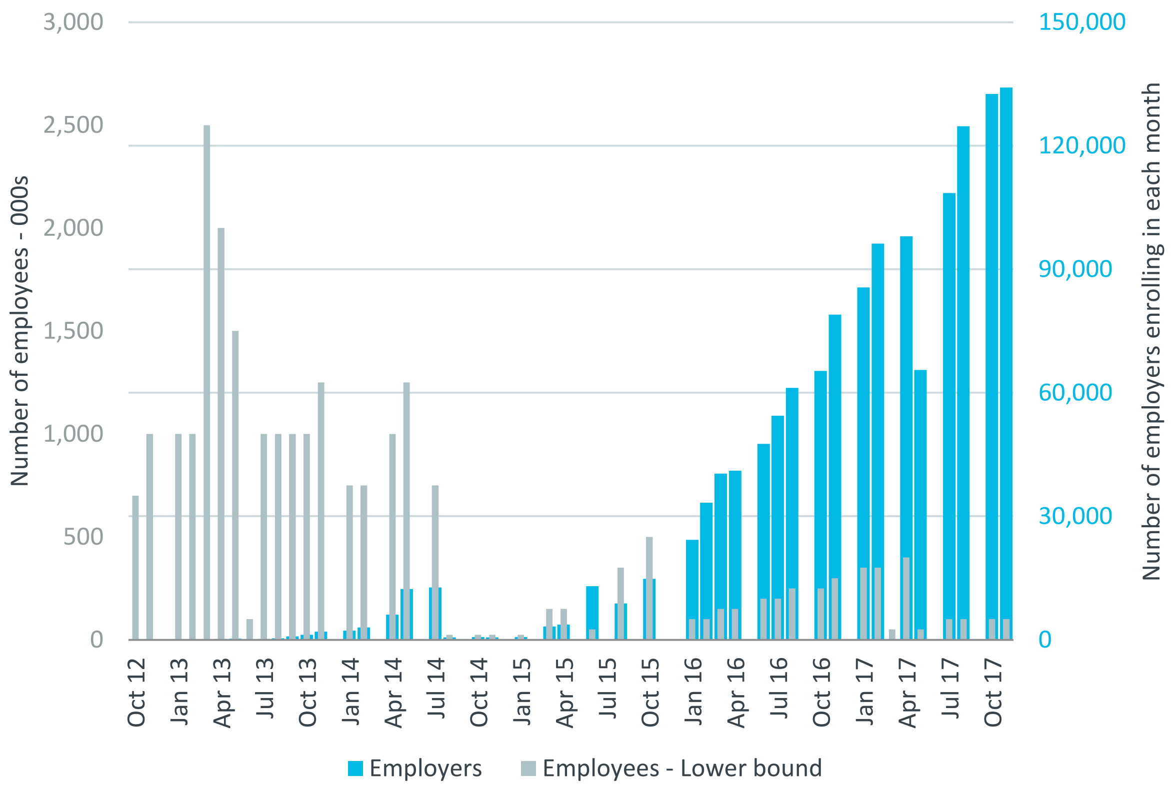
Evidence of early implementation, released in 2013, has shown automatic enrolment to be a success. While surveys conducted in advance of implementation suggested an expected opt-out rate between 15% and 30%,[17] the actual opt-out rate up to October 2013 was only

[16] DWP, *Technical Changes to Automatic Enrolment*, Gov.UK website, 2013, retrieved 8 July 2014 from https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249558/ae-technical-changes-consultation-government-response.pdf

[17] DWP, *Attitudes to Pensions Survey 2012*, Gov.Uk website, 2012, p. 64, retrieved 8 July 2014 from https://www.gov.uk/government/publications/attitudes-to-pensions-the-2012-survey-rr813

around 9%.[18] Three thousand employers had gone through automatic enrolment, enrolling 1.9 million employees. Of these, 1,800 employers and 600,000 individuals opted for NEST.[19] While this is a significant volume for a newly-established provider, the demand for NEST is likely to increase as enrolment duties reach smaller employers in 2014 and beyond (see Figure 1). Most recent figures from July 2014 show that almost 18,000 employers had undergone the automatic enrolment process and some 3.9 million individuals had been newly enrolled into a pension scheme through automatic enrolment.[20]

Figure 1. Employers and employees enrolling in each month from October 2012 to October 2017



With implementation underway, DWP's role has centred on managing the scale-up of automatic enrolment. As time went on, the department has become increasingly adept at engaging stakeholders and implementers and keeping in touch with the changing landscape of automatic enrolment delivery. Because of the staged nature of implementation, each group of employers is likely to encounter different challenges and require different support from the previous one. To keep abreast of this, DWP established forums for engaging regularly with specific groups such as payroll providers, advisers, and intermediaries. Employer associations found the automatic enrolment team very good at engaging with them and following up their concerns. This makes it easier for associations to support employers, and also gives the department a better view of potential risks ahead.

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[18] DWP, Automatic Enrolment Evaluation Report 2013, Gov.Uk website, 2013, retrieved 8 July 2014 from https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013

[19] DWP, Automatic Enrolment Evaluation Report 2013, Gov.Uk website, 2013, retrieved 8 July 2014 from https://www.gov.uk/government/publications/automatic-enrolment-evaluation-report-2013

[20] The Pensions Regulator, *Automatic Enrolment Registration Report*, June 2014, retrieved 8 July 2014 from http://www.thepensionsregulator.gov.uk/docs/automatic-enrolment-monthly-registration-report.pdf

Staying in touch with implementation

To connect what it learns from stakeholders with its own view of the project, DWP designed a way for information gathered in these forums to feed into the project governance and risk management structure. Alongside the Project Board, the Risk Review Group, and the Project Managers Group – which brings together information from across DWP, NEST and TPR – a Shared Intelligence Forum was established. This is a channel for identifying new risks and, if necessary, adding them to the existing risk register. According to Hannah Malik, the Shared Intelligence Forum was put in place to 'stop risk [management] from becoming a process and a monitoring tool rather than an intelligence tool'. This system of identifying issues and engaging stakeholders is considered important for the near future. Each successive stage of implementation will require a different group of employers to be supported – with a new set of potential challenges, in an environment of rising volumes throughout 2014 and into 2015.

DWP's stakeholders also highlighted to us that Steve Webb, the Minister for Pensions, has been sending out strong signals about the willingness of the department to listen by actively engaging with them, for example by speaking at conferences and meeting representatives.

Preparing for 2015 and beyond

Starting from April 2015, the success of automatic enrolment will depend on how well small – and later very small – employers deal with their obligations. DWP and the Pensions Regulator have been conscious of the challenges these companies face and worked to support them in preparing for their staging dates. Small employers, unlike medium and large ones, do not have dedicated HR, finance or payroll departments and have little or no experience with pensions. For automatic enrolment to work for this group they will need to be able to get guidance on how to select a pension scheme. Moreover, much will depend on the ability of the supporting industries to absorb the demand.

Conclusions and lessons

Although automatic enrolment is only 18 months into its live implementation phase (which will last until 2018), so far it has been a success. Between late 2005, when the Pensions Commission published its recommendations, and April 2014, when NEST announced it had enrolled its millionth member,[21] government has proved that the public sector can introduce large-scale changes in a complex policy area to help solve a longstanding challenge without significant failures on the way. This was done by adopting a consensual, consultative approach to implementation, which was helped by the institutional structure that was put in place. The delivery architecture for automatic enrolment – notably the creation of PADA as an intermediary body charged with delivering NEST – also helped access the right skills and capabilities to deliver the most complex parts of the project, although key leaders still needed to make a determined effort to get relationships working. Government has also learned that without engaging the targets of regulation early on, it is difficult to design rules that will achieve what the policy set out without making life unnecessarily difficult for business. Even understanding what employers and businesses supporting them need to do to comply with a set of government rules, is a challenge for government officials. The familiar

[21] NEST, *NEST members are 'one in a million'*, press release, NEST website, April 2014, retrieved 8 July 2014 from http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/news/nest-members-are-one-in-a-million.html

problems of cross-government consensus and co-ordination have also manifested themselves.

The story of automatic enrolment also provides a number of useful lessons for implementation more generally.

Invest in building and maintaining consensus around long-term reform

The policy benefited from its origins in a consensual process – the Pensions Commission – which lasted into the implementation phase. This meant that key players such as employers, employees, and providers have generally been supportive and co-operative. DWP have built up their role as a relationship manager to keep these stakeholders engaged. Moving into implementation, there was a continued emphasis on maintaining consensus. Ministers were instrumental here, engaging opposition spokespeople to ensure their continued support as the government developed its detailed approach to automatic enrolment. But institutional choices also fostered an environment of discussion and accord – particularly the creation of PADA which used its arm's-length status to develop the new pension scheme in a consensual way via ongoing engagement with employers, industry, and consumers.

Be clear about what capabilities you need and consider adjusting institutions to bring them in from outside.

The creation of PADA was critical for successful implementation. It made it easier to bring in people with the right expertise, who could for instance procure the £600m scheme and make informed decisions about delivery timetables based on their commercial experience. Devoting attention at senior level to recruiting the right person to lead the most unusual part of the project – establishing NEST – also paid off.

But the timescales for creating new institutions are often lengthy. It took five years for PADA to set up the new pension scheme. Automatic enrolment also demonstrated the value of looking at what existing capability could be expanded or adapted to meet project needs, for instance the role of the Pension Regulator was successfully grown to include employers in its remit.

Create the right conditions for people to work effectively

To a large extent, automatic enrolment was helped by the decision of several key individuals to stay with the project for a significant amount of time. This was largely down to the permanent secretary at the time making it clear that he expected people to provide continuity and individual commitment to the project. Senior leaders from DWP, PADA and NEST agreed that they would stay the course. There were no systematic changes or incentives put in place to achieve this.

While outsiders brought in from the private sector provided the necessary mix of skills, they were at points unclear on the constraints they would face. Until the governance structure bedded down, it was individuals' willingness to 'make things work' that made it possible for these tensions to be resolved. This could have been made smoother by providing more support to leaders entering government from outside the public sector, so they better understood the environment on arrival.

Make sure you understand the likely behaviour of the targets of regulation

Having had only limited engagement with employers at a policy development phase, DWP designed very stringent regulations to ensure employers complied. This was in part because of DWP's natural tendency to approach policy issues from the point of view of employees, and in part because ministers were also concerned to protect employees. While this is understandable, it led to unnecessary complexity in the regulations which was only ironed out after further consultation and feedback from key implementers. The department did, however, invest in getting a good understanding of the likely response of different groups of employees early on. The research they commissioned showed that automatic enrolment could not rely on the inertia effect alone, without an effort to raise awareness about the changes. This led the department to design and run a highly-effective awareness-raising campaign.

Involve front-line implementers from the earliest stages to ensure fit-for-purpose regulation.

As research participants told us, it is impossible to identify all likely implementation challenges before delivery gets underway and in some cases, implementers themselves would struggle to highlight delivery difficulties in advance. Nonetheless, DWP might have benefitted from more substantial engagement with implementers (notably employers and payroll providers) at an earlier stage. This would have helped build a better overview of the entire ecosystem of service providers that would have to come together and what constraints they faced, for instance in terms of the development cycle of payroll software. High-level alignment, achieved by consulting with trade bodies, proved insufficient for understanding critical dependencies – especially the fact that 'it's all about payroll'. Over time, DWP reflected this and developed ways of engaging with support industries (payroll providers, bookkeepers, etc.) and learned to lever in insights from TPR.

Create ways to gather and share information on progress, risks, and timescales.

Overall, automatic enrolment benefited from significant attention to sharing information that could help the teams who were working on it spot risks and make changes in real time. The governance around automatic enrolment helped the team understand the project as a whole – not just NEST, but also compliance and staging issues spotted by DWP and TPR. DWP and TPR have also conducted surveys to understand how enrolment rates are evolving and how different groups of employers and employees are likely to react. DWP has also learned continuously about what drives the desired behaviour – not opting out – and how its communication campaign can best support it. This was underpinned by a strong project management office in the department. Currently, the risk management process doesn't just look at risks that are already on the risk register. In the Shared Intelligence Forum, it includes a mechanism to identify and escalate new risks based on what is happening on the ground.

But understanding risks and critical dependencies also requires crossing departmental boundaries. For instance, Real Time Information presented a risk to automatic enrolment as it diverted the attention of employers and payroll early on. Automatic enrolment would have benefitted from stronger attempts to co-ordinate the cumulative effects of the burdens of these two different government initiatives that were simultaneously imposed on the same employer functions.