



# AUTOMATIC ENROLMENT

## EMPLOYER CONSIDERATIONS

Your business is unique and we know that applies to the way you provide employee benefits.

To help you prepare your business for Automatic Enrolment, we've brought together some of our learnings and experiences from employers who have already automatically enrolled their employees.

**SCOTTISH WIDOWS**



# GENERAL

HERE ARE SOME GENERAL CONSIDERATIONS YOU SHOULD TAKE INTO ACCOUNT WHEN PREPARING FOR AUTOMATIC ENROLMENT.

## Q. Are you aware of Automatic Enrolment requirements?

- A. It is important that you fully understand all the employer duties as part of Automatic Enrolment. There is plenty of advice and support available to assist in this process but ultimately it is you, as the employer, who needs to be able to demonstrate compliance. We recommend you visit <http://www.thepensionsregulator.gov.uk/employers/tools/employer-duties.aspx>, where you can get further details of the duties.

For those who can't demonstrate compliance there are fines of up to £10,000 per day depending on the size of your company.

## Q. Do you know your Automatic Enrolment staging date?

- A. A table of staging dates has been available for some time via The Pensions Regulator's website but there is now a tool available that can confirm your exact staging date. Visit <http://www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx> and by putting in your PAYE reference number you can confirm when you are expected to stage. This is based on HMRC records as at 1st April 2012.

The Pension Regulator will contact you around 12 months before your staging date but the sooner you can confirm the date the sooner you can start planning for the needs of your business.

## Q. Do you intend to use your existing scheme for Automatic Enrolment?

- A. We know that a significant number of employers intend to use their existing schemes for Automatic Enrolment purposes. This often seems like the most obvious and straight forward solution, and for many it is. It's important however not to assume that this is the case.

If you are considering this approach we would still suggest speaking to your current provider as soon as possible to confirm a number of things:

- Does your current scheme meet the criteria of an Automatic Enrolment pension scheme? For full details of the criteria, please visit <http://www.thepensionsregulator.gov.uk/docs/detailed-guidance-4.pdf>
- Is your provider willing to make the terms of the current scheme available to your whole workforce? In many instances existing schemes may be for managerial grades and the annual management charge might be based on higher average contributions than you will see under Automatic Enrolment. This might have an impact on your current provider's ability to extend those terms to your entire workforce.
- Does the scheme best meet the needs of your whole workforce? It is easy to assume that an existing scheme is the best for all employees but with different employees' financial needs, attitude to risk, financial awareness etc it might be more appropriate to have a different approach for your workforce.
- What support will your existing provider give you in helping meet your responsibilities within the legislation? Some providers will offer a technology solution that will assist in meeting these obligations.

**Q. Have you estimated the cost?**

- A. There are a number of potential issues which could have a financial impact on your company when it comes to Automatic Enrolment. Apart from obvious costs related to the new employees being enrolled into the scheme, there are likely to be other additional costs that you need to consider.

Depending on the size of your workforce Automatic Enrolment may result in a significant amount of additional administration. Much of this can be minimised by good use of technology but depending on the complexity of pensions arrangements, frequency and number of payrolls; there may be other hidden costs in administering the changes.

If you decide to use a payroll provider for Automatic Enrolment there may be an explicit additional charge for their services, whereas systems provided by pension providers are more likely to come at no extra cost. However, if by using the payroll provider you are able to significantly minimise the level of administration undertaken in-house, then this may still be the most cost effective option.

**Q. Have you conducted assessment of your workforce against the eligibility rules for Automatic Enrolment?**

- A. All of your employees will have to be assessed for eligibility under Automatic Enrolment rules. If their earnings exceed the minimum threshold of £10,000 per year and they are over 22 and under their state pension age, they will have to be auto-enrolled into a company pension scheme.

Employees who earn more than the threshold but are under 22 or over their state pension age, or employees earning between the qualifying earnings lower limit of £5,772 per year and the minimum threshold are known as non-eligible employees. They must be invited to opt in to the scheme and you will have to make contributions at the agreed rate.

Employees who are aged between 16 and 74 but do not earn above the qualifying earnings limit are called entitled workers. They must be given the opportunity to join the scheme, however you do not have to make contributions.

Based on our experience so far we would encourage employers to undertake an initial assessment of their workforce as early as possible.

This is a valuable exercise for a number of reasons. Not only will it enable you to understand more clearly the potential financial and administrative implications for your business of Automatic Enrolment, but it will also help in identifying gaps in the data that you currently hold on staff and any breakdowns in processes or procedures between HR and Payroll functions within your business.

**Q. Have you considered different contribution and pensionable earnings models?**

- A. Good workplace benefits are a draw to high quality staff and your retention strategy should recognise the on-going benefit of providing workplace pensions. However, your strategy needs to be affordable and so you may consider, for instance, closing the existing scheme to new members and automatically enrolling new employees into a different pension scheme. Be prepared to explore a number of approaches to identify the best and most affordable model for you.

**Q. Do you intend to enrol employees into a qualifying pension scheme under their contract of employment?**

- A. This can have some advantages if you operate a flex benefit or salary exchange arrangement or want to offer full benefits to certain groups of employees. Being members of a qualifying scheme at the point of assessment means you and your employees have very little to do. However, should any employee cease membership of the scheme, it is your responsibility to ensure they are assessed for eligibility in the next pay reference period.

**Q. Have you considered using the postponement option before assessing your employees?**

- A. The option to postpone assessment for up to three months is one that employers should consider. At a basic level there is an upfront saving to the business but underlying this there are actually some very practical reasons why some elements of postponement are worthwhile. Many of our early Automatic Enrolment schemes have been sensitive to the potential message that postponing could send to their workforce – for an employer genuinely supportive of Automatic Enrolment why would they want to put it off?

This sentiment is very commendable but bear in mind that an individual's contributions must be calculated based on the date at which they become eligible through to the start of the next pay reference period. This may be fine at staging where everyone is enrolled on a given date, but as new employees join or existing workers turn 22, there may be numerous people becoming eligible part-way through any given pay reference period, making the calculation of contributions unnecessarily complicated. By postponing until the beginning of the next pay reference period you may be saving your payroll function a lot of additional work.

Alternatively, if your business employs temporary staff over peak periods then choosing to postpone enrolment until the peak period is over is a very sensible way to avoid enrolling seasonal staff for a matter of weeks worth of employment.

**Q. Have you thought about how you will manage opt-outs and the rolling re-enrolment process?**

- A. Efficient and compliant opt-out and re-enrolment processes are key to ensuring you meet your obligations and work with your providers to meet their obligations in a way which is efficient for you all. There are various ways that you might choose to manage these – importantly however you do it, you must be able to provide details to the Regulator, if requested.

Ultimately you need an approach that will work best for your employees and ideally minimise the administration impact for you. The more of this that can be done through an automated solution the better for you as the employer – it will capture all of the required audit trail and minimise the risk of paperwork being lost should you need to produce your records for the regulator.

Similarly for re-enrolment, it is important that you have a working solution to ensure that any employee who is not already a member is re-enrolled within the correct timescale.

Both of these tasks can be time consuming and open to error if completed manually, but similarly you need to have access to a system that works for you and gives you peace of mind that you can access all of the necessary records whenever you need to.

**Q. Have you considered how you will communicate with your employees?**

- A. Communicating with employees about pension benefits has always represented a challenge and it's one made doubly hard under Automatic Enrolment.

Be fully aware of your duties to inform your employees about Automatic Enrolment. We suggest that when you are determining your Automatic Enrolment strategy ensure that you are clear what support your financial adviser, employee benefits consultant, software or pension provider can give you in this regard. You need to establish what this support will deliver. Will it be automated or simply draft communications for you to complete?

In addition to your mandatory responsibilities you may also want to consider what assistance is available to you to raise awareness across your workforce of Automatic Enrolment to ensure that they are fully aware and understand the implications for them.

When supporting our early Automatic Enrolment clients what has proved most effective is being able to work with them to develop a communications approach that will have most impact with their workforce. Nobody knows your staff better than you so it's important that communications can be delivered in a way that best suits them, whether that's email, posters or wage slip inserts.

Communications can become even more complicated if you've chosen to segment your workforce for Automatic Enrolment by using more than one provider. If you have opted for this approach, it's important that a communication strategy can be delivered that is co-ordinated and won't result in confusion or apathy for staff.

Communications to your employees are extremely important so they can make the most of this valuable benefit.

**Q. Have you considered how you will meet The Pensions Regulator's requirement for you to keep records of how you've complied with your Automatic Enrolment duties?**

- A. As you would expect there are legal requirements under Pension Reform relating to the records that employers need to keep. Although you can use whatever method you choose to keep these records we would suggest that you maintain as many of them electronically as possible. Many of the Automatic Enrolment solutions that are available will host all of this for you and should you be required at any time to produce your records for the regulator having them electronically is likely to save you time and administrative effort.

It is important to remember that not all of the systems that are in the market are the same and some may well have limitations on the data that you can access, so it's important to ensure that whatever you choose can best support your needs.

If you want to check what your responsibilities are under Automatic Enrolment you can find them here: [www.tpr.gov.uk/guidance-record-keeping](http://www.tpr.gov.uk/guidance-record-keeping)

## YOUR POSITION

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**Q. Are you aware of the likely timescales involved in implementing an Automatic Enrolment solution?**

- A.** There is a huge amount of planning involved in preparation for Automatic Enrolment.

You should remember that the staging date is not the point to start the process but the point at which the process should be more or less complete.

Below, we've listed main steps employers need to take to prepare for Automatic Enrolment:

**Step 1: Now**

- Investigate legal requirements
- Know your staging date

**Step 2: Between now and staging**

- Assess the workforce
- Review your scheme(s)
- Model different options
- Create a strategy
- Implement changes
- Issue communication

**Step 3: At staging and beyond**

- Provide the data
- Keep the records
- Manage ongoing governance

Businesses experiencing a smoother implementation are typically those who have devoted sufficient time in planning their approach, determining the appropriate strategy for them, and sticking to it. Problems arise where there hasn't been sufficient planning and the strategy changes half way through the implementation at which stage it may be too late.

Similarly, where employers have used that planning time to engage early with their intermediary, payroll and pension providers it has allowed them to understand the services each can provide and structure a strategy accordingly. Early engagement with these providers also enables you to work more effectively in partnership ensuring that all parties have a clear understanding of your needs and minimises complications later on.

The Pensions Regulator recommends businesses will need a minimum of 12-18 months planning time if they want to ensure that staging goes as smoothly as possible and they avoid any fines, although this may vary depending on individual circumstances.

You can create your own plan for automatic enrolment by using their planning tool which you can find at: <http://www.thepensionsregulator.gov.uk/employers/planningfor-automatic-enrolment.aspx>



**Q. Have you considered who will be undertaking the various processes within your organisation and any training requirements?**

**A.** We suggest that you dedicate as much resource as possible to developing and implementing your Automatic Enrolment strategy. For certain employers, this might be a whole project team but that's clearly not going to be necessary or feasible for every employer.

**Q. Are your employee records up to date?**

**A.** Accurate employee data is crucial to operating the Automatic Enrolment process efficiently. It is mandatory for you to supply your pension provider with a list of information for each employee, including:

- Name
- Sex
- Date of birth
- Automatic Enrolment date
- Postal residential address
- National Insurance number
- Gross earnings in any pay reference period

The value of any contributions payable to the pension scheme by the employer and the eligible employee in any pay reference period.

You should also be prepared to provide additional data, such as:

- Postal work address
- Work email address (if one exists)
- Personal email address

For more information on data requirements, we recommend visiting:

<http://www.thepensionsregulator.gov.uk/docs/detailed-guidance-4.pdf>

We have always known that missing data might cause challenges but our experience with early stagers has really highlighted not only the need for clean data, but the requirement for HR, Payroll and Finance to be able to share data in a way which is relatively uncommon.

We have already highlighted the benefit of preparation but within that perhaps the most valuable time invested by employers has been in cleansing data and ensuring systems and processes are in place for the three functions to work efficiently together to deliver Automatic Enrolment.

**Q. How do you separate your workforce in your payroll, for example, job families, pay groups, pay thresholds?**

A. When it comes to your work place benefits for your employees, you may offer different pension benefits for different employee sections of your workforce. You will need to decide how you wish to promote any workplace benefits you provide to employees and to whom and be clear about the different approaches. Commonly, benefits choice and value increases as workers move up the grading scale and you may wish to preserve and promote those benefits in the Automatic Enrolment world.

**Q. How often do you run your payroll and does it differ for various sections of your workforce?**

A. Every business is different and this includes their payroll arrangements. It is likely that over time various payroll profiles have evolved within your business, either to meet the needs of different sections of the workforce or perhaps as a result of mergers or acquisitions.

Some early stagers have used Automatic Enrolment as an opportunity to streamline payrolls or align pay reference periods and this is something that you should consider. The main benefit that payroll consolidation will deliver is that it will minimise administration for your payroll function when providing and reviewing files making the process more efficient and reducing the time taken to review. Also, your pension provider's automatic enrolment solution may not accept multiple files.

Ultimately it will be the data contained in the payroll files that will be the biggest determinant of success.

**Q. Do you intend to use more than one Automatic Enrolment scheme to cover different segmented employee groups, based on your design for employee benefits and their needs?**

- A. In many cases, the employer's needs will be fully met through a single scheme. In some situations however a single provider will not always be the most effective route and the segmentation of the workforce may be a preferred solution. Segmentation can deliver greater benefits where there's a large contribution differential between the higher and lower paid employees:
- higher paid employees have access to a bespoke proposition designed for them at a lower cost (with no need to cross subsidise their lower paid and more seasonal colleagues)
  - lower paid and more seasonal staff aren't paying a higher charge in respect of the product features and services which they may not use or benefit from.

It is important that you seek financial advice on Automatic Enrolment. Your adviser can then help you decide how best to segment your workforce and which provider(s) to use to meet your needs.

**Q. Do you intend to use salary exchange with your Automatic Enrolment scheme to help reduce the overall cost of compliance with the Automatic Enrolment duties?**

- A. One method of reducing the costs of Automatic Enrolment is to set your scheme up on a salary exchange basis.

By making payments through salary exchange (sometimes referred to as salary sacrifice) rather than directly, your employees can reduce the amount of National Insurance Contributions (NICs) that they pay. Plus, it will also save you money as your NICs will reduce.

Salary exchange is an arrangement where an employee gives up part of their future earnings or bonus in exchange for a non-cash benefit. As the salary is being 'exchanged' rather than paid, the employee does not pay NICs on the exchanged amount. In addition, you won't pay NICs on the amount of the salary exchanged either. The exchanged amount can then be paid to the employee's pension plan as an employer contribution.

Any savings you make using the salary exchange can then be used to offset any increased contribution and administrative costs of that arise from Automatic Enrolment.

Using salary exchange for Automatic Enrolment is not straightforward and we strongly recommend that you seek financial advice and speak to your automatic enrolment provider before considering this option.

To find out more about Scottish Widows Automatic Enrolment solution, AssistMe, speak to your adviser or Scottish Widows account manager or visit [www.scottishwidows.co.uk/pensionsreform](http://www.scottishwidows.co.uk/pensionsreform)



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