

The Synaptic guide to auto enrolment

The role of Synaptic in group pension research

Synaptic is the industry's leading product and fund research tool, with over 8,000 users, having launched as the first automated research tool in the early 90's. The profile of user tends to be the traditional IFA or paraplanner, providing holistic advice across a range of products for the most part, including a significant amount of pension and investment business.

Analysing a batch of M.I. produced by a sample of Synaptic users shows us that this group are comfortable and successful in advising on group schemes. Our assumption therefore is that this

group will be well positioned to take advantage of the opportunity offered by auto enrolment. This observation is behind our decision to produce this guide, which offers expert views from a range of perspectives.

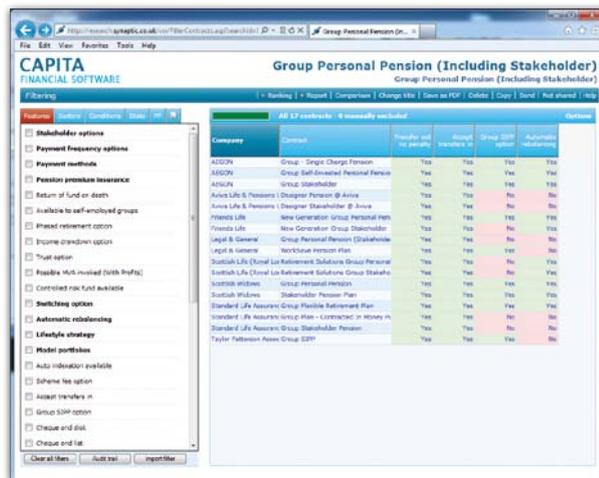
Synaptic provides visibility of the market in terms of the options available, and the means to ensure that advice is suitably tailored to the clients requirement.

We looked at a sample of over 1600 group pension cases over 12 months, as performed by Synaptic users. Aegon and Aviva (with the

highest average case size) took the lion's share of the business, Scottish Life, Standard Life and Scottish Widows forming a second tier. All the above companies are focussed on supporting advisers with propositions that have consumed considerable investment, underlining the serious commitment that providers are making in this respect.

The table below provides an analysis of features that were applied in the group pension research, offering an insight to the priorities required by our advisers' clients.

Transfer out no penalty	43.27%
Accept transfers in	41.42%
Switching option	40.86%
Payment frequency options: Monthly	40.37%
Early retirement no penalty	39.51%
Return of fund on death	39.26%
Payment frequency options	39.14%
Payment methods	38.95%
Online services	36.85%
Paid up no penalty	35.93%
Transfer out no penalty: At any time	35.68%
Payment methods: Direct debit	33.64%
Early retirement no penalty: At any time	31.30%
Paid up no penalty: At any time	30.86%
Premium holiday no penalty	30.80%
Lifestyle strategy	30.06%
Reducible contributions no penalty	29.44%
Stakeholder options	27.35%
Online services: Investment statement/fund valuations	26.85%
Reducible contributions no penalty: At any time	26.23%
Premium holiday no penalty: At any time	25.99%
Accept protected rights	24.26%
Switching option: All switches free	21.85%
Online services: Switch facility	17.72%
Online services: Projected illustrations	16.11%



To the left are two screenshots showing Synaptic Research methodology. The initial screen shows the products available and a reference grid being formed showing product filters. The second screen shows ranking being applied to identify the most suitable recommendation.



Any advisers who do not have access to Synaptic and are preparing for the opportunity of auto enrolment can call 0800 7834477.

Pensions Reform 2012

Unless you have been living under a rock for the last few years, you will be aware that advisers, technicians and providers have been trying hard to understand the requirements of auto-enrolment, which arrives in October this year.

Contact details:

Pensions Team: 01484 439126
Direct SimplyBiz: 01484 439100

Quite simply, we are living longer and saving less and this combination of inertia with regards to planning for retirement, combined with the closure of so many occupational schemes, has led to both the present and previous Government to tackle this issue.

Starting with the large 'macro' employers, new rules will mean that all employers will have to auto-enroll eligible jobholders into either NEST (National Employment Savings Trust – the new Government pension scheme) or choose an alternative pension scheme which ticks certain boxes, so is deemed as 'qualifying'. Qualifying schemes will allow employers to certify that they already have a suitable plan and comply with the auto-enrolment regulations so they can ignore NEST.

Auto-enrolment and the minimum contribution rates will be staged over several years, (the exact timing is dictated by head count of the employer).

- Step 1 – determine whether the company is affected.
- Step 2 – determine the category of employee
- Step 3 – determine what type of scheme will be most appropriate
- Step 4 – comply with the auto-enrolment regulations

All eligible jobholders must be auto-enrolled, but will be able to opt out should they so choose. Those individuals who do opt out must be auto-enrolled again 3 years later.

A worker is defined as any individual who:

- works under a contract of employment (an employee), or
- has a contract to perform work or services personally (i.e. they cannot send a substitute or sub-contract the work) and is not undertaking the work as part of their own business.

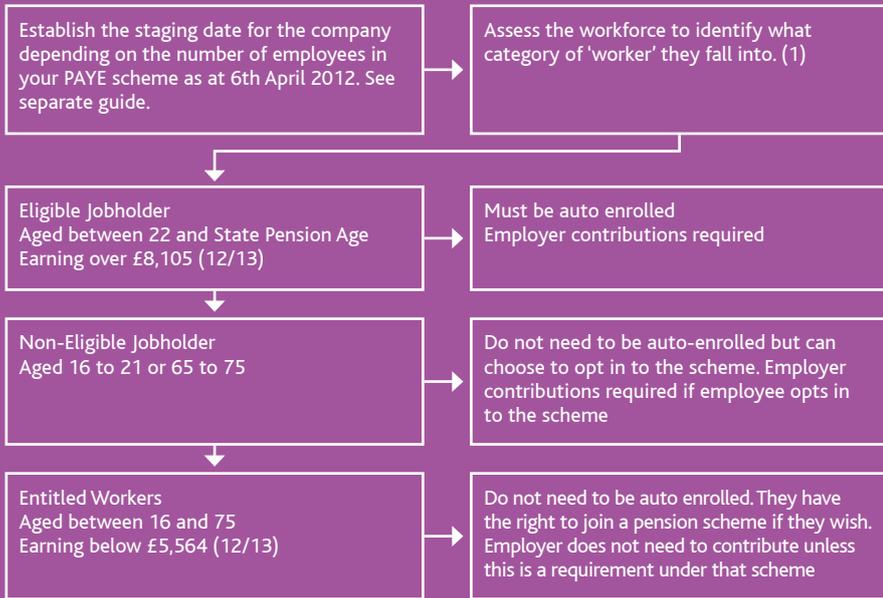
The contract does not have to be in writing and can be verbal or just implied (as such, this definition could include agency and casual workers, carers and nannies for example).

NEST Contribution Rates – Qualifying Earnings

Under NEST, employers will need to contribute 3% on a band of earnings for eligible jobholders – between £5,564 (the lower qualifying earnings band limit for 2012/2013) and £42,475 (upper earnings limit for 2012/2013). This will be supplemented by the jobholder's own contribution and around 1% in the form of tax relief. Overall contributions will total at least 8% for this type of scheme. NEST will carry an annual management charge of 0.3% per annum.

Using other types of scheme other than NEST

To comply with the auto-enrolment criteria a scheme must meet the qualifying criteria (see below). There can be no barriers to prevent the employer from auto-enrolling, opting in or re-enrolling jobholders. In addition, schemes



Keeley Makin
SimplyBiz

cannot promote the opting out of a scheme or offer any form of enticement to do so.

To comply with the qualifying criteria any other scheme will need to be an occupational or grouped personal pension scheme, will need to be tax registered and will need to satisfy minimum requirements depending what type of scheme it is. We give a summary below.

Group Personal Pension / Group Stakeholder Schemes

- There must be an agreement in place between the employer and the pension scheme provider under which:
- The employer must make contributions in respect of the jobholder
- Employer contributions must be at least 3% of jobholder's qualifying earnings
- If the employer does not pay the full 8% contribution then there must be an agreement in place between the jobholder and the pension scheme provider under which the jobholder contributes the difference between 8% of qualifying earnings and the employer contribution
- There must be a direct pay arrangement between the employer and the jobholder.

Occupational Money Purchase Scheme

- The employer must make contributions in respect of the jobholder
- A total minimum contribution must be paid of 8% of the jobholder's qualifying earnings in the pay reference period

- Of the above total, a minimum of 3% must be paid by the employer

Defined Benefit Scheme

- A scheme which is contracted out will meet the minimum requirements.
- A scheme which is not contracted out (or ceases to be) will need to provide benefits which are broadly equivalent to or better than a test scheme standard. This will be determined ordinarily by the scheme actuary.

Key features of the test scheme include the following:

- Entitlement to a lifetime pension from age 65 (increasing to age 68 to reflect state pension age increases)
- An annual pension of 1/120th of average earnings over the 3 tax years prior to retirement multiplied by service (subject to a maximum of 40 years service)
- Revaluation of accrued benefits by a specific method
- Escalation of benefits in payment at least in line with RPI capped at 5% or 2.5% depending on when the benefit comes into payment
- Career average earnings schemes (CARE) must meet additional requirements in relation to the revaluation of benefits

Funding above the minimum qualifying earnings

Alternatively, if a company chooses to use an existing money purchase scheme and fund above the qualifying earnings bandings, then the rate of contribution will depend on how the company defines pensionable pay. This is summarised as follows:

- A minimum 9% contribution of pensionable pay (including a 4% employer contribution) or;
- A minimum 8% contribution of pensionable pay (with a 3% employer contribution) provided pensionable pay constitutes at least 85 per cent of the total pay bill or;
- A minimum 7% contribution of pensionable pay (3% employer contribution), provided that the total pay bill is pensionable

Advice issues:

Advice is certainly going to be required by employers and company accountants alike as time marches on. A number of providers have already launched or are currently working on payroll software plug-ins, to assist with the sorting criteria and the calculations of the correct contribution rates, given the earnings bands dictated.

The Government is relying upon inertia for auto-enrolment to be a success. Certainly, in other countries where similar regulations exist it does appear to have a relatively low opt out rate, which may pose interesting times ahead for us all!

The cat's view

As auto-enrolment finally hoves into view, it has turned into the financial services equivalent of the Daily Mail ontological oncological approach – it causes cancer! No, it cures cancer! It all depends what day of the week it is.

www.langcatfinancial.com

I'm struck by the optimism of providers, busy building auto-enrolment solutions to help employers navigate the challenges of their new responsibilities. And, of course to deliver lots of new bodies and assets into their group pension propositions.

I'm struck too by the see-no-evil, hear-no-evil optimism about the impact of NEST and the new breed of low-cost pension providers on the mid-market. NEST has had a bad few months, with some founder schemes opting out (pun intended) and signing up with insurers. Given that NEST's controversial 1.8% contribution charge (and other restrictions including transfers in) were put in place to protect insurers, the good people at NEST could be forgiven for feeling a little chagrined.

So far it seems likely that large employers, advised by large consultancies, will steer well clear of NEST – (as Henry Tapper of First Actuarial recently pointed out in his blog) none of the Big 5 schemes with over 120,000 staff each have plumped for NEST, favouring instead a ragbag of cash balance, DC, GPP and mastertrust. Others may choose to have it as part of the mix, but so far the news isn't good.

Further down the market, staging doesn't happen for another 12-18 months, and it's all to play for. It's this SME market, possibly

extending to the callused feet of the FTSE All-Share gentlemen's club, that is, I suspect, the key battleground for the insurers and for many corporate IFAs.

In this market, auto-enrolment is still tomorrow's problem, and while anecdotal evidence suggests there is some sign of engagement, these employers are currently thanking their lucky stars it isn't them yet. But 92% of employers are reported as being concerned by AE, even if it's just a little niggle, so the message is getting out. I listened to a distinguished actuarial consultant speak at a conference recently; his experience was that within 10 minutes of starting to discuss auto-enrolment, CEOs and FDs switched off and were generally of the mind that we should just have compulsion as what we do have is just too complex.

That complexity is the backbone of the auto-enrolment systems offered by providers and software suppliers. The functionality fairies have been out again, sprinkling their pixie dust. Now everyone has to have an AE system; employers or advisers looking for something to help administration of AE along the way already have a dizzying choice.

The choices broadly split into two – tied cottages offered by insurers, which no doubt



Mark Polson

Principal
the lang cat

think carefully about pension structures and be ready to advise on bundled DC business, mastertrust, cash balance and contract-based business

do the job but only 'talk' to their own products. Marketing and sales teams being what they are, we can look forward to a mine's-bigger-than-yours fight on that front which will probably not move us very much further forward. However, they will be free, which is something.

More persuasive, I suspect, will be the paid-for models being built by software providers like Staffcare and Xafinity and consultants like Thomsons Online Benefits and Lorica. These will be provider-agnostic so able to help companies with multiple payrolls and multiple schemes. An honourable mention here goes to Aviva, whose AME system will, when launched, work happily with other providers' pensions. I don't know if other insurers are doing that, but they should. Staffcare research published recently suggested that 70% of advisers favour a third party solution, presumably one that featured the word 'Staffcare' prominently on it, but still.

While all this is going on, various providers are putting large amounts of money into corporate platforms, which fulfill a number of strategic functions. They offer great investment flexibility (even if it's never used), corporate ISAs (even if they're never used) and the ability to record holistic information on individuals' financial affairs (even if it's never used). More importantly, they replace creaking systems

which struggle to offer the flexibility required by consultants and IFAs trying to design new benefit structures to stave off the threat of NEST. But given that at least some of the new platforms don't yet offer consultancy charging as a feature, this section of the market has a way to go yet.

Where does it all shake out to for advisers? I think everyone involved in advising corporates could take a lesson from the largest EBCs for once – think carefully about pension structures and be ready to advise on bundled DC business, mastertrust, cash balance and contract-based business. These structures will filter down the market and smart providers will find ways of making them accessible. Diversify income streams where possible – I'm sceptical about consultancy charging as a mechanism and certainly as an engine for adviser profitability – and look at services you can fee for. Employers who won't pay their way may avail themselves of the new breed of direct propositions and NEST.

And most of all, don't expect auto-enrolment to deliver massive business benefit. With opt-out rates predicted recently to hit 40%, it is very, very far from being a cure for cancer.

Expert overview

As an introduction to our guide, we asked Capita Hartshead, widely acknowledged as one of the UK's leading specialists, to share their view of the forthcoming changes in terms of opportunity for advisers. They agreed that advisers have a key role, especially where employers are looking at schemes of under 200 'eligible jobholders'.

Auto enrolment is almost upon us. From October 2012 up to 8 million people will find themselves automatically enrolled by their employer into a pension scheme over the next 5 years. In the run up to commencement what has surprised many people are the complexities involved, not just those imposed by the legislation, (identifying and categorising the workforce, band earnings, deciding upon a contribution structure and qualifying scheme), but also the interaction within businesses (management, HR, payroll and IT systems). Employers have discovered that the information required to comply with their new duties is not always held in one place, and that increased responsibilities will now rest on people who are managing, or advising on, the pension scheme.

In addition to this, most people involved with pensions presumed (in many cases incorrectly) that it would be easy to amend existing schemes and enrol employees. The assumption was that the criteria would be very simple and that existing payroll and HR systems would be able to cope with the changes and existing pensions would accept new joiners without question. They have found that this is not the case.

The reasons for these assumptions are embedded within the regulations, which, to recap, are as follows;

The definition of 'eligible jobholders', (those employees who must be auto enrolled) is based

on earnings and age. Firstly they have to be aged between 22 and the state pension age. Identifying this criteria might appear to be easy, however many employers have found that this information may not be readily available on their payroll system, which means it has to be obtained from another source – HR for example. Given this scenario, how will employers arrange for the information to be collated and who should they assign the responsibility to for ensuring it is kept up to date? In addition, they need to factor in that this is going to be a continual process, as younger employees get older and become eligible for auto enrolment.

Secondly, earnings must exceed the earnings trigger, (£8105 for the year) for the worker to be eligible for auto enrolment. Sounds easy, but earnings are related to the employees pay reference period, which could be weekly, four weekly, monthly or another variation. Therefore, a weekly paid employee only has to earn £155.87 in the week to be eligible for auto enrolment (monthly is £675.42). In many cases employers have a combination of pay periods, so that's numerous different checks.

The definition of earnings covers more than just basic pay. Therefore if contributions are to be based on the minimum requirements, pay items such as bonuses and commissions need to be taken into account.

This will lead to some employees becoming eligible where the employer didn't expect it.



Philip Daniels Dip PFS

Senior Consultant, Actuarial and Consultancy Services, Capita Hartshead

About Capita Hartshead

Since 1974, Capita Hartshead have been looking after the needs of our clients and their employees, working together to help build a future and a retirement – a future which we would all want to share.

Operating in 15 locations throughout the UK and Ireland, some 2,000 staff deliver pensions administration, consultancy and specialist delivery solutions to 650 clients, touching the lives of over 4 million people.

Both within the public and private sector, whether we're implementing, transforming, delivering or supporting your company pensions schemes, you can be confident that we are 100% committed to delivering solutions that make a difference.

At Capita Hartshead your success equals our success. By listening, learning, responding and adapting to

your needs we can help you solve issues and explore the best way forward to meet your entire needs.

As part of Capita PLC, a FTSE100 organisation, Capita Hartshead offers the strength and stability of a national organisation but with the flexibility of a local partner. And our promise goes beyond just business, we bring new ways of working to create a permanent pensions legacy for all your employees.

Through excellence, partnership, progress and trust we aim to make a difference to millions of lives, without them ever knowing it.

To learn more about Capita Hartshead, visit our company website at: www.capitahartshead.co.uk

Advisers should therefore approach clients in plenty of time before their staging date to give themselves, and the client, enough time to prepare for the changes

Why, because whilst an individual's annual income may be below (or close) to the earnings trigger, their pay in a particular period may exceed this level. There are various examples of where spikes in pay could occur, such as extra hours worked, a bonus or commission payment. This could happen at any time in the year, so employers (and their payroll systems) need to be able to identify when this occurs and the auto enrolment process started.

In addition to eligible jobholders, there are non eligible and entitled workers. The non eligible jobholder (those outside the qualifying age range or with earnings below the earnings trigger) can opt in to the scheme. If they do this, the employer has to calculate and pay contributions. Entitled workers (those outside the qualifying age range and with earnings below the lower threshold) can decide to join, but don't have to benefit from an employer contribution.

Minimum contributions under auto enrolment are based on a qualifying band of earnings. Many employers looking at capping their costs have to ensure that their payroll systems are able to identify qualifying earnings, calculate the relevant contributions and be flexible enough to cope with changes. We already know that minimum contribution rates will change during the phasing period, but it is also likely that some other factors such as the earnings trigger and pay thresholds will change over

time. What if the employee, or employer, wants to pay more than the minimum? Can systems cope with this degree of flexibility?

Whilst using the band of earnings to calculate contributions caps employers liabilities, it also means lower average contributions payable to pension providers. In some cases contributions may be infrequent (as employees earnings dip below the lower threshold). Because of these factors many traditional pension providers have had to look closely at the future membership and assess closely the terms offered. Will they offer terms which are not as good as the existing scheme, or even decline to offer terms or accept new entrants? Advisers and employers must actively consider the new players in the market, such as NEST and the People's Pension, to provide solutions.

Advisers should therefore approach clients in plenty of time before their staging date to give themselves, and the client, enough time to prepare for the changes. Failure to do so could lead to many employers and advisers finding it difficult to provide a satisfactory solution and having to deal with the consequences.

Learning to walk

With automatic enrolment fast approaching, many employers are starting to understand the huge impact it could have on their business. First of all, they will have to find the money from somewhere to pay pension contributions for their workers. Employer pension contributions are of course mandatory with automatic enrolment so there isn't a lot that can be done by advisers to help employers with the pounds and pence cost (with the possible exception of salary exchange).

Next, employers will have to work out how the automatic enrolment rules and processes interact with their business. Unfortunately there literally hundreds of pages of legislation and guidance that set out the automatic enrolment rules. The penalties if employers get it wrong can be substantial and employers do not want to spend hours and hours sorting out pensions when they should be running their business.

But there is absolutely no point in promising to deliver a system to employers that will do all the automatic enrolment duties from their staging date unless automatic enrolment is firmly integrated into an employer's business well in advance of that date. And this is where advisers can start to add real value.

In general, there will be two stages involved in getting an employer ready for automatic enrolment – design and implementation.

Designing a solution

The design stage involves getting information from the employer to establish when their staging date is, what type of scheme they have in place just now, and how many workers they have. This information can then be used to

establish a timeline and a high level estimated total contribution cost, based on the different categories of worker. This can take into account existing contributions and should help the employer decide whether to use the qualifying earnings basis, or certification, for their automatic enrolment scheme.

Advisers can then start to model different options to see how each approach would affect all or different parts of the workforce. For example the employer might want to keep their existing scheme going for any existing pension scheme members, but introduce a new category at a different contribution level for new entrants. This modelling should concentrate not just on pounds and pence cost, but also on the administrative impact of adopting different approaches to scheme design. For example, paying the absolute minimum contribution requirement may cost less in pounds and pence terms. But it may take more time for the employer to process, because of the tricky definition of 'qualifying earnings', especially if earnings fluctuate from pay day to pay day.

Just how early advisers should start helping employers with designing their automatic enrolment scheme will largely depend on the



Jamie Clark

Business Development Manager
Scottish Life

The penalties if employers get it wrong can be substantial and employers do not want to spend hours and hours sorting out pensions when they should be running their business

size of the employer and their attitude towards providing a pension scheme for their workers. But it shouldn't be left too late. Gathering the data required and designing a solution will take some time. Leaving it too late could mean additional costs that employers can ill afford.

Implementation

Once the overall design has been agreed, the agreed arrangements need to be set up properly within the employer's business. This is arguably the most complicated and most important part of the process. A good example of this is postponement, which allows employers to defer the automatic enrolment date for up to three months. Employers might want to use postponement if they want to align key automatic enrolment dates with key payroll dates. For example, if a new worker is employed half way through a pay period, this might mean that payroll will have to work out pension contributions based on a part month's salary. And some payroll systems might not be able to cope. Postponement can allow employers to make sure that part month calculations will not be required. Some employers may want to minimise the risk of having to make refunds to workers who opt out. Again, setting the

postponement date to align with key payroll dates can help achieve this.

There are many other ways that postponement can be used. Every employer is different and there are many more automatic rules that have to be considered. That's why it is so important to consider the employer's existing processes and systems before setting up an automatic enrolment scheme. It doesn't mean giving employers a list of dates to tell them what all the automatic enrolment rules are. It means sitting down with their payroll, HR and administration people to talk through how their own processes work in practice, and how key automatic enrolment dates and timescales can then be slotted in. Many pension providers will provide an implementation manager to work through this sort of detail with the employer and their adviser.

Walking through the design and implementation stages means that these key dates and processes can be integrated into a tailored automatic enrolment solution. That can give employers and advisers peace of mind that the automatic enrolment scheme is being run in the most efficient, cost effective way possible.

Helping Employers Get Ready for Auto Enrolment

Pension Reform is coming – it's inching ever nearer with the first firms staging dates in autumn of this year and some choosing to bring them forward to the summer. Many firms are planning their response to auto-enrolment and many are taking steps right now. Financial Advisers are uniquely positioned to help employers fulfil their duties and below we set out some of the ways an adviser can help.

We have identified a number of questions which are key for employers considering how to fulfil their responsibilities in this market.

- When do I have to have my scheme in place?
- Who do I have to enrol into the scheme?
- How much it is going to cost?
- What are my options in terms of providing an eligible scheme?
- Is there anything I can do to reduce the costs?

The great thing is advisers can help an employer answer all these questions right now

When do I have to have my scheme in place?

There are a range of 'staging dates' spread over the next few years. The first firms have their staging dates in October 2012. Between October 2012 and April 2017 all existing employers will have their staging dates, you

can find out the most up-to-date information at the following website www.scottishwidows.co.uk/pensionsreform or try the interactive tool available from the pension regulator at www.pensionsregulator.co.uk – to find out the staging date you will need to know the number of employees and the PAYE reference from the employer.

Who do I have to enrol into the scheme?

There are a number of different employee categories but the employer has a duty to automatically enrol all employees age 22 to state pension age into the scheme where they earn above the Personal Allowance limit. Outside of this category all other members of staff will need to be categorised and receive appropriate communications about their rights to join the scheme on a non-automatic enrolment basis.

How much it is going to cost?

There are 4 different ways that an employer can satisfy the rules of automatic enrolment, from looking at a percentage of band earnings to looking at a percentage of basic earnings only. It can be a complicated process to work out which option will best suit the profile of an employers workforce however there are a number of calculation tools which have been developed that allow an adviser to import a payroll file

into a calculator and which will assess the costs to the employer of meeting his pensions reform duties. The tools work for employers who have current schemes and employers who have no schemes and you can access one that will produce a report which can be used with employers to illustrate the costs of complying with the new rules at www.scottishwidows.co.uk/pensionsreform

What are my options in terms of providing an eligible scheme?

Many different types of pension scheme can be used from Defined Benefit schemes to Stakeholder pensions plans. As a rule of thumb Life Office schemes are most likely to be available where there are at least 5 members and an average contribution per member of more than £100 per month – anything smaller than that – and there are an estimated 800,000 employers who employ 5 people or less – are likely to be best suited to Nest, Peoples Pension or Now Pension who have designed plans to meet the small premium high turnover element of the market. Whatever provider is selected the scheme must meet the minimum contribution levels, enable automatic enrolment and have a suitable default investment strategy. All existing schemes should be tested against the pension regulator guidance on eligible schemes to ensure they are suitable to meet the employer's requirements. Remember that for many Employers the final strategy may be



Robert Cochrane

Key Accounts Pension Development Manager
Scottish Widows

Advisers are uniquely positioned to help employers fulfil their duties and below we set out some of the ways an adviser can help

a multi-scheme solution with the workforce segmented into different schemes – for more details on segmentation see the may edition of techtalk www.scottishwidows.co.uk/extranet/literature/doc/techtalk-2012-05

Is there anything I can do to reduce the costs?

Employers should look to salary exchange (sacrifice) as a way to meeting the contribution requirements – this will allow some national insurance savings to form part of the overall contribution. The 2011 NI rises have just made salary exchange an even more cost effective way of contributing to pension schemes. The Pensions Regulator has produced a detailed guide on the interaction of salary exchange and auto-enrolment and you can also download a bulk salary exchange tool at www.scottishwidows.co.uk/extranet/tools – the calculator will help with the end to end process of salary exchange – from calculating employer and employee NI savings en masse to producing letters for individuals to agree to salary exchange.

One of the most common questions advisers ask is why should employer's act now, rather than waiting until the staging date comes around?

The starting point here is that the market is already seeing a huge uptake in group pension business – many employers are reviewing whether their existing provider is the right provider to use as their automatic enrolment provider of choice. Some providers are no longer in the market and every existing scheme should have an audit as to the suitability of the current provider to be the automatic-enrolment provider. In some cases where the workforce is diverse and the scheme profile would radically change by enrolling the workforce not currently in the scheme the incumbent provider may not accept the rest of the workforce into the scheme on current terms or any terms. It's as well employers start to discuss the options available to them with their existing providers so they can plan for the change.

Other Employers consider they want to get their house well in order before their staging date comes around, to avoid the last minute rush to get schemes in place and the risk of fines for non compliance within the timescales set. Remember staging dates are not the point to start the process but the point at which the process should be more or less complete.

Alongside the deadline above we also have the RDR changes. Post 2012 commission will not

be available on new schemes written, we move to a world where employers will have to pay fees or use consultancy charging. At this point consultancy charging is in the embryonic stages but the fact of the matter is with automatic enrolment schemes the bulk of the business will be regular premiums. If an employer does not agree to pay a fee it becomes more difficult for an adviser to get paid upfront for the work undertaken. Where an agreement is made that the adviser is paid from fees extracted over say the first year of the plan for example, those fees will be coming out of the money invested. This could lead to variable allocations for different members of the scheme. Whatever shape it takes it is likely to be a lot more complicated than the current simple approach where advisers are paid for their services from the plan, the clients get all their money invested and the scheme annual management charge includes a payment for advice within it.

For schemes set up prior to RDR the FSA have clarified in paper PS12/3 that new members and increments can continue to come into the scheme on a commission basis.

Post RDR it is likely to be a lot more difficult for employers to share the costs of scheme set up with employees and the incidence of Employers paying fees to advisers in the corporate pension market will rise. This is one of the commercial reasons employers might choose to deal with the Pensions Reform now rather than wait until their staging dates become minutes away.

Advisers can answer most of the questions employers are asking right now and there is plenty more to discuss well before the staging dates come around so let's all take advantage of the opportunity to prepare now – rather than leave it to the last minute.

For the latest on pensions reform visit www.scottishwidows.co.uk/pensionsreform

Stepping into auto enrolment

From October, the new employer responsibilities introduced by the Pensions Act 2008 and 2011 will start. From this date, employers will have to start automatically enrolling their workforce into a qualifying pension scheme. Although the staging dates for smaller companies have been put back, auto-enrolment will still happen and so employers need to understand the implications of this.

Worryingly, some two thirds of small-scale employers haven't yet considered what their responsibilities are with regard to automatic enrolment. Moreover, they haven't yet quantified the additional costs of fulfilling their responsibilities and, in terms of direct contribution costs and administrative expenses, these could be substantial. No one can underestimate the impact that these changes will have on their business, regardless of size.

Challenges

Change always brings opportunities and challenges, and pensions reform is no different. The new employer responsibilities mean hard work but breaking them down into a few simple steps, can make them less daunting and more manageable. Employers need help and advice to understand what they have to do. And that's where a worthwhile adviser or helpful provider can help out.

The clock's started ticking

As soon as an employer knows their staging date, the countdown to auto enrolment starts. Time is of the essence to make sure they meet their responsibilities on time and to ensure a smoother path to auto-enrolment. Following a few simple steps will help in this process and ease them into the new pensions world rather than go crashing in.

The first thing they need to do is assess their workforce – categorising their employees. This should be at least 12 months before the staging date and should help start to give the employer an idea of the costs involved in auto enrolling (or not auto enrolling) their workforce.

Around 10 months prior to staging, it's important to review current pension arrangements – so there may be an existing scheme that could be used or adapted for automatic enrolment, or there may be a need to set up a new one. Adviser involvement is invaluable at this stage and they could well benefit from the opportunity of setting up a new scheme if required.

Design and test the process

You don't have to opt for just one solution. You could choose one solution for one set of jobholders and another for a different set of jobholders. Which solution you opt for depends on many things. Simple, quick and efficient

Employers need help and advice to understand what they have to do. And that's where a worthwhile adviser or helpful provider can help out



Ross Jackson

Head of Workplace Communications
AEGON

About Ross Jackson

Ross Jackson is Head of Workplace Communications, responsible for the development of AEGON's workplace communications proposition. A key part of his role is working with advisers and large employers to maximise employee engagement in retirement savings through effective and engaging communications. Ross is a subject matter expert in behavioural economics and has a particular interest in investigating how these principles can be applied in the workplace to improve engagement. He is an associate of the Chartered Institute of Marketing and has twelve years experience in marketing communications within financial services.

administration will be paramount – collecting the right contributions at the right time and applying them promptly will be crucial in running a successful scheme. So designing and testing the process needs to be done upfront to make sure the chosen solution does actually work. Pension providers offer various flexible solutions to help meet this need and have extensive experience in this area.

Around seven months before staging, when testing the processes, there's a good opportunity to clean up employee data, making sure that all details are correct and up to date.

Employee communications

With around six months to go, it's time to develop your employee communications strategy. You cannot underestimate the importance of good employee communications for making sure that your workforce is truly engaged and that they know what their responsibilities are in the whole enrollment process.

This is something that a good provider could help you with – perhaps providing templates for letters or emails or helping with some worksite marketing – to raise awareness amongst the workforce. This, along with pre-staging communications at three months, hold the key to a successful, smooth path to auto-enrolment. People must be kept informed of what's happening and what's required of

them so a robust communications plan is essential as the staging date gets closer. Change naturally unsettles people so it's important to keep your employees informed and make them feel like they're in control.

Tools to help

With so many things to remember and prepare for, it's easy to see why employers could feel daunted by the whole auto enrolment process. So, breaking down the process into manageable steps and using any available tools to help them, is just common sense.

To help employers remember key dates AEGON have developed an iPhone app which is programmed to remind them of the key tasks they need to undertake in the run up to their auto-enrolment staging date.

It works by an employer inserting their staging date or the number of employees on their PAYE and provides all future events and key legislative dates, expert opinions and blogs from AEGON and tips on what to do next.

Although the employer has a huge responsibility in rolling out the auto-enrolment process to their employees, they shouldn't feel daunted as there's a wealth of help and advice available from good advisers and pension providers.