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How to choose a pension provider for auto-enrolment

AVIVA

Foreword

Andy Beswick, managing director of business solutions, Aviva

As a small business, the pension scheme you select for auto-enrolment will play a big part in how successfully you're able to deal with the new regulations.

Choose wisely and you'll end up with a scheme that works well with your systems, is easy to run and positive for your employees. Choose poorly and you could be lumped with a scheme that doesn't fully meet the needs of your business – or that you need to spend a lot of time managing each month.

At Aviva, we're aware that many smaller employers may be struggling with the prospect of choosing a workplace pension scheme for auto-enrolment, and that there are numerous questions you'll be looking for answers to…

Which type of scheme is best to go with: a group personal pension scheme from a traditional pension provider, or a master trust from one of the new kids on the block? Should you ask for help from an accountant, financial adviser or payroll firm, or should you go it alone? And how can you tell which schemes are the best from the dozens currently available?

In this guide, we've brought together contributions from a number of different experts to help answer these questions and more.

We hope you'll find it useful when you're considering which pension scheme to go with. We want to help you to make a wise, informed choice, that will stand the test of time for you and your employees.

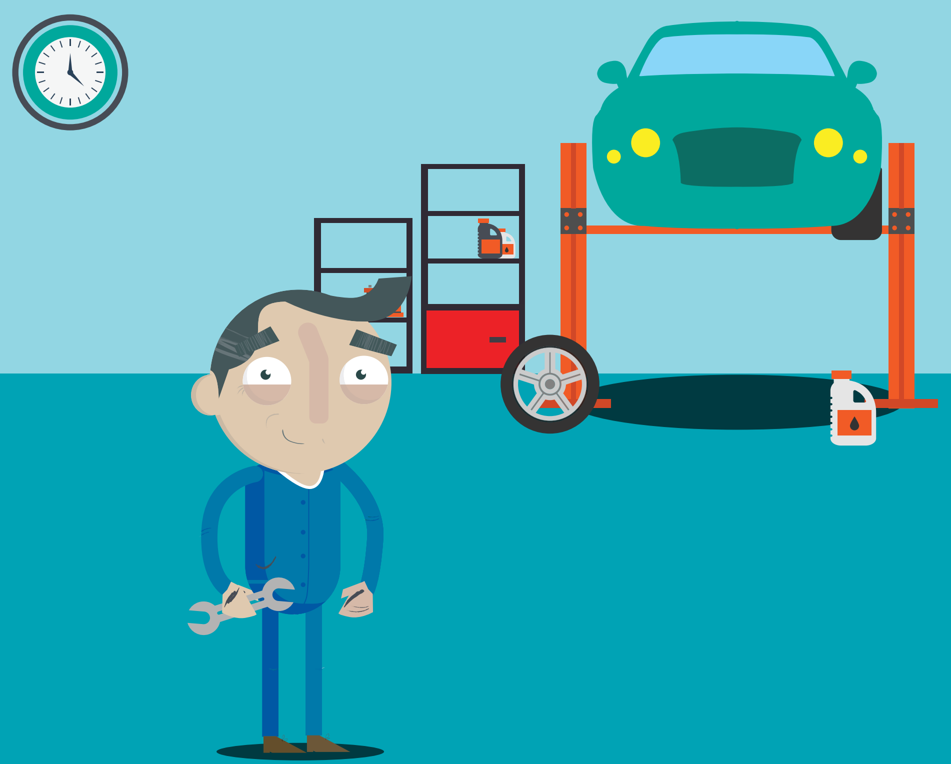
AM Beswick

Contents


GARAGE
BARBER SHOP
COFFEE
CAFE
CAFE
Busy-Bees Day Care
Bloomin' marvellous
Flower shop

Auto-enrolment: The next big challenge for smaller businesses

By Dr Adam Marshall, executive director of policy and external affairs, British Chambers of Commerce



Auto-enrolment is one of the biggest challenges facing businesses at the moment. It's particularly difficult for smaller businesses, not least because they usually have little to no experience of dealing with pensions.

At the British Chambers of Commerce, we've been involved with auto-enrolment from the start. Our involvement has been threefold:

1. We tried to influence the government's policy design, so it would have the least disruptive impact on business, and costs would be as low as possible.
2. We've worked closely with The Pensions Regulator and pension providers, so we can educate businesses about auto-enrolment and help them understand their responsibilities.
3. We're keeping tabs on the roll-out of auto-enrolment, trying to make sure companies get the best possible communications informing them of their staging dates.

We want to make sure businesses have all the information they need to cope with auto-enrolment and to feel as supported as possible throughout the process.

The impacts of auto-enrolment on small and micro businesses

The biggest impact for small and micro businesses – particularly those whose margins are not all that good – is the bottom line. Auto-enrolment is effectively a several percentage points increase in payroll costs for many companies.

The initial evidence shows that few people opt out once they are auto-enrolled, so as an employer, you must assume your employees will stay in the scheme. That means planning for higher overall staff costs, which affects the bottom line.

Another big impact is what I like to call getting it right. When you're the owner of a business, you're often the manager, the HR director, the finance director and everything in between. That means it falls on you to make sure auto-enrolment happens smoothly and you comply with all the rules and regulations. That can be very daunting.

For a lot of businesses, our sense is that the fear of getting it wrong is almost greater than their anger at the additional cost imposed on them. Getting it right is very important.

You don't have to handle auto-enrolment by yourself

If you're a small or micro business owner, it's important to remember you're not alone as you tackle auto-enrolment. Businesses can turn to your local accredited Chamber of Commerce.

We recommend employers talk to a trusted finance professional, such as a financial adviser, accountant or others who can give advice on pension schemes. These professionals will be regulated by the authorities, so they're under careful scrutiny.

Trust is hugely important when you're picking someone to help you. You'll want to work with someone you believe is doing the right thing both in:

- managing the scheme, and
- making sure you and your employees' contributions are growing and helping to provide a secure retirement for those employees at a later date.

Dr Adam Marshall, executive director of policy and external affairs, British Chambers of Commerce

In my opinion, the single most important thing you need to do as an employer is make sure your pension schemes are compliant. Fortunately, many providers have carefully designed their schemes to be compliant and to be easy to use. This is great for business owners who simply don't have the opportunity to spend huge amounts of management time on this issue.

We also believe individual businesses can go direct where they have existing relationships with major financial companies or pension providers. For example, if you already have a pension scheme with a major provider, it's often simply a case of going to that provider and making sure the scheme is compliant with the new rules.

There are lots of ways businesses can get advice and support. Chambers are here to help, but we know there's a range of partners who can also help you implement auto-enrolment, many of whom work closely with the British Chambers of Commerce.

Talk to employees to make sure they understand what's happening and why

One of the biggest issues with auto-enrolment is the potential it has to damage employer-employee relations. In many cases, employees will be uncertain about why their employer is suddenly deducting a significant amount from their salary every month to pay for a scheme they may not know about.

Because of that, at the British Chambers of Commerce, we strongly believe the best thing for employers to do right now is to talk to their employees about auto-enrolment.

Even if your business is not due to stage for a while, it's worth making sure your employees know auto-enrolment is coming and what it will mean for them. You can also tell your employees that while you must auto-enrol your staff, they can choose to opt out. However, you need to tread carefully here as you mustn't encourage your employees to opt out.

For an employer, I think it's important to be clear with employees about the fact that this is a government policy, not one they've chosen to introduce themselves.

One thing we wouldn't want to see happen here is a loss of confidence between businesses and their employees because politicians have decided to put auto-enrolment in place. Instead, we want to see great communication between business and their employees. That's why it's important for employers to make sure their employees understand what's being done, why it's being done and the potential benefits it brings further down the road.

There's no such thing as too much communication

Working with businesses day in and day out, one of the maxims in my job is: tell them, tell them and tell them again. There's no such thing as too much communication about a change as big as this.

We really need companies to be talking relentlessly to their employees about what they will be doing.

We need The Pensions Regulator to continue to communicate regularly with employers, so they can get it right.

And, of course, we need scheme providers of all types and sizes to be talking very carefully with their clients, making sure this isn't a case of doing the initial work on auto-enrolment then forgetting about things later on.

This is a long-term change and it requires a long-term communications response.

Choosing the right pension scheme for your business

Some businesses may already have a pension scheme in place, and those firms can often just go to their existing provider and check whether the scheme is compliant for auto-enrolment.

However, as smaller firms begin staging, we will get to the point where most of them don't have any experience of company pension schemes.

For those businesses, the directors need to look at a number of factors, including:

- the cost of provision
- the level of service the provider offers
- their confidence in the reputation and track record of the provider
- how easy the provider makes it for them to set up and run a scheme.

Plenty of schemes on the market tick most of those four boxes, but it's up to you as the business owner to find the one that's right for your company.

As an employer, you could find the market is too busy for you to get a firm grasp on the number of schemes available to you. And, as you're not a pension expert, you could find it difficult to compare schemes.

That's where a business accountant and financial adviser comes in handy. Those individuals will be able to help small businesses compare the merits of various plans at some stage or another.

Don't be afraid to ask for help

Whatever the size of your business, you have a legal obligation to auto-enrol your employees in a suitable and compliant pension scheme.

The important thing to remember is that while the final decision rests with you, there are people who can help you along the way. Whatever stage you're at – researching schemes, looking at your options, or setting up and running your scheme – make sure you ask for help if you need it.

Auto-enrolment is too important and could have too big an effect on your business for you to go it alone when you don't have to.

British Chambers of Commerce

Dr Adam Marshall joined the British Chambers of Commerce in July 2009. He is responsible for representing the interests of the Chambers of Commerce network – with 52 accredited Chambers and over 100,000 member businesses across the UK – in Whitehall, Westminster and the media.

Before joining the BCC, Adam was head of policy at the Centre for Cities think-tank. During his five years in this role, Adam played a central role in the organisation's start-up and spin-out from the Institute for Public Policy Research. He also led work on city leadership, transport, local finance and economic development.

How M&MR chose a pension provider and auto-enrolled

By Alison Marshall, financial controller, M&MR

Company profile

- **Name:** Motivation & Marketing Resources
- **Size:** Five full-time employees, plus occasional events staff
- **Sector:** Event management
- **Staging date:** June 2015

As the financial controller of a small business, I was in charge of choosing a pension scheme and steering us through auto-enrolment. Here are some of the things I learned (and the pitfalls I had to avoid) along the way.

At Motivation & Marketing Resources (M&MR), we design and run corporate events for the likes of BT, Royal Bank of Scotland and Deloitte. We're a small company with five core staff, plus a number of occasional workers, who we call upon when we're running a large event.

As the only financial person at the company, if there's anything with numbers in it, it falls to me. So when auto-enrolment came along, I knew I'd be responsible for finding out what we needed to do, when we needed to do it and how we needed to do it.

We were surprised when we checked our staging date

We had thought that as a small employer we wouldn't be required to stage until 2016 or the year after. So when I checked and found out our staging date was actually June 2015, it was a lot earlier than we'd been expecting, and caught us on the hop a little.

That's not to say we were unprepared. I had been flagging up auto-enrolment for a couple of years beforehand because I wanted us to budget for it. We'd considered phasing it in so we could plan in the pension contributions when considering pay rises. But in the end we didn't do this, and decided to leave things until our staging date arrived.

Taking time to understand auto-enrolment was invaluable

One thing you might find is that building the knowledge you'll need to deal with auto-enrolment on your own isn't easy. Quite early on, I looked in all sorts of places trying to find out more about auto-enrolment: how it worked and what we needed to do.

The Pensions Regulator's website was the most impartial because it wasn't trying to sell me anything, so I used that as a base point for information. But I also looked at pension provider's websites, as well as our payroll provider's.

In fact, the only official training course I went on was via our payroll provider. I had to pay to go on it, but it made me realise how much work was going to be involved, so it was definitely worthwhile. If you're planning to deal with auto-enrolment without the help of a financial adviser or other business adviser, I'd absolutely recommend spending time getting to grips with how it all works.

Assessing the potential financial impact of auto-enrolment was also tricky, but again was well worth doing. It meant I had to find out who was eligible to be automatically enrolled, who wasn't, and all the other auto-enrolment classifications for the different people we have working for us.

Alison Marshall,
financial controller, M&MR

We had a false start when selecting our scheme

When it came to choosing our scheme, first of all I approached a pension provider I already had experience with, but in truth they were pretty terrible. They took forever to get back to me and were very non-committal.

I felt like I'd wasted a couple of months by contacting them, which I'd done because at the time it felt like the easiest thing to do.

At that point, I looked into what other options were available and looked into one of the new master trust schemes set up in the past few years. We also looked at a group personal pension (GPP) from a large, traditional pension provider who had supplied us with other services for the business. I didn't know if they'd be interested in quoting for a small company, but as it turned out, they were.

I then called a company meeting to explain the pros and cons of the two options we were considering.

We put employees first when making our decision

When it came to comparing the schemes, I wasn't interested in the incentives and the add-ons we could get if we went with one provider over another.

Instead, the quality of the default investment and the reliability of that was the most important thing. I'd say it was 99% of our consideration. If we were going to provide a pension scheme for our staff, we needed to be assured that it was going to be the best product for them.

Related to this, we also had to weigh up the different costs of the two schemes. With the GPP from the traditional provider, the annual fund charge that our employees would have to pay was 0.75% a year. With the master trust provider, theirs was only 0.3%, but then there's a 1.8% charge on contributions on top of that, which would take their overall charge up to 2.1%.

In the end, we went with the GPP from the traditional pension provider because we felt they would be a better product in terms of performance than the other one would be… but of course time will tell on that! The GPP also had a wider range of alternative investment funds that our employees could choose if they didn't want to stay in the default choice.

Running the scheme has been pleasantly uneventful

I've been managing the scheme for a few months now and it's all gone smoothly so far. I just use the online scheme management system that came with the scheme to upload a spreadsheet.

When we first implemented the scheme they had a support service that would talk us through how to do it, which was excellent. Now I think I know what I'm doing, but I'm sure that if I get stuck, if I ring the support line I'll get equally good support.

When it came to assessing our employees to see who needs to be automatically enrolled and so on, we decided against using any software, and have been doing it on a spreadsheet. But that is one aspect of auto-enrolment that worries me – assessing employees to see whether they need to be enrolled or not.

> "If you're planning to deal with auto-enrolment yourself, start early and get quotes from a number of different providers."

Ongoing assessment can be complex

As an events company, we don't need a huge number of staff day-to-day. But if we're running a conference for 500 people, suddenly we have a lot of event staff that we pull in from various places. Some of those are on the payroll, some are self-employed.

It's the ones on payroll who could become tricky, because they may not work for us for months, and then the next month they may work for us and earn £1,000 in one particular month because they've done five, six, seven events for us.

This means they keep switching which auto-enrolment category they fall into. One month they may be eligible to be automatically enrolled, the next they won't be. That's what concerns me.

If it becomes a nightmare, I may reconsider using some software, either from our pension provider or payroll company – both of whom can provide it. And I can also use postponement, which allows me to reassess the worker at a later date to check if they still need to be automatically enrolled.

What would my top tips be?

1. If you're planning to deal with auto-enrolment yourself, my number one tip would be to start early. You need to allow plenty of time to go through all the information available and work out what you'll need to do. Going on a seminar or other training course like I did is well worth it, in my opinion.

2. Spend some time working out which contribution basis will be best for your business, too. At M&MR, we decided to base our contributions on our employees' basic pay, rather than their qualifying earnings (which is the standard for many schemes).

This made sense for us because it allows us to ignore overtime when we're calculating who is eligible to be automatically enrolled, and also when we're working out our pension contributions. It does mean we need to contact The Pensions Regulator every 18 months to re-confirm which contribution basis we're using, though. As I understand it, you don't need to do this if you use qualifying earnings.

3. Get quotes from a number of different pension providers, and make sure they are prepared to accept applications from small companies, as not all of them do.

I would also suggest speaking to a financial adviser or accountant if you can. As we're such a small business we couldn't afford the cost, but I did speak to a pensions adviser who deals with my family personally.

If you can't afford external support, don't worry. Choosing a good pension provider and dealing with auto-enrolment is definitely doable on your own.

I did it, and so can you.

Alison Marshall qualified as a chartered accountant in 1992 and joined M&MR in 2003, working as their financial controller for the past 12 years. She deals with all aspects of the financial control and compliance within the firm, and was responsible for choosing the company's pension scheme for auto-enrolment.

Using Star Ratings to help you choose a good scheme

By Richard Hulbert, insight analyst, Defaqto

The task of selecting the right workplace pension scheme for your business can be a daunting one. So at Defaqto, we've Star Rated the different auto-enrolment schemes available to help make it easier for you to choose a good scheme.

If it's down to you to find a suitable workplace pension scheme for your business, you could be forgiven for wondering where to start. Especially if you don't know much about pensions and your boss has landed you with the responsibility, just because you happen to work in accounts.

The good news is that there are several high quality schemes suitable for auto-enrolment use. And on our website, you'll find a list of over 50 schemes available to employers for auto-enrolment, in order of their Defaqto Star Rating. You'll also find more details such as whether you need a minimum number of employees, as is the case with some schemes.

This means you can quickly and easily compare the different schemes available to pick from.

What the Star Ratings show

The higher the Star Rating, the more comprehensive and higher quality the scheme – and the more options and flexibility you'll see within it.

So with a 5 Star scheme, you should expect a good set-up experience that's relatively quick, with the ability to speak to a human being if you need to. It means you can get your scheme set up quickly and know it's running properly.

You should also be able to expect help with statutory communications. The scheme should have a good default investment fund, with the ability to make changes to your chosen investment option, and access to pension freedoms at retirement.

With lower rated schemes, you'll find they are less comprehensive and would offer you and your employees less flexibility and fewer options. I'll come to the importance of flexibility later.

Key factors we consider

When we're rating a scheme, we look at more than 60 different elements to determine which rating it should receive. Of these, here are three areas we think are particularly important:

1. Investment options

Generally, the schemes with a higher Star Rating offer employees a range of investment options, whereas, those with a lower rating offer fewer – sometimes the default fund is the only one available.

In the UK at present, nobody really talks about what their pension fund is doing, unlike in America or Australia where it's commonplace. Ultimately that will come, though, as more and more people are automatically enrolled into a pension scheme. People will begin to realise what a big difference their fund choices can make to their retirement. And when that happens, having a scheme offering a range of investment options will become more and more important.

The availability of Sharia investment funds (those which meet the requirements of Islamic Sharia principles) is another thing for employers to consider.

What happens if you don't offer a scheme that has a Sharia fund available and all your Muslim employees opt out of the scheme because of that? You could potentially be seen as having encouraged those employees to leave the scheme – a big no-no according to auto-enrolment regulations.

Even if you don't employ many Muslim people today, who's to say how your business will change in the next five, 10 or 15 years?

Richard Hulbert,
insight analyst, Defaqto

2. Statutory communications

Another thing we look at is a scheme's approach to statutory communications. This is the one area everyone forgets to think about when choosing which scheme to go with. But it's actually hugely important.

According to auto-enrolment regulations, there are a number of different communications – or notices as The Pensions Regulator calls them – that you must send to employees at certain points in time, depending on their circumstances. For instance, when you've automatically enrolled someone into a scheme or when they have the option to join, you'll need to send them a letter or email to inform them.

With some schemes, the pension provider will produce and distribute these communications; with other schemes, they won't. Similarly, some providers charge for the service, others don't. So when we're rating schemes, at Defaqto we favour those providers who produce the notices and distribute them.

As an employer, you'll have to send these notices out forever more, so the less effort and cost involved, the better because it will soon add up.

3. Retirement options

In the past, you were basically restricted to buying an annuity when you retired – a product that pays you an income each year until you die. But thanks to the government's new pension freedom rules, introduced in April 2015, people now have several more options when they retire.

Not every scheme gives employees access to all these options. So employers with their employees best interests at heart, may want to consider a schemes retirement options.

Make sure to check with the pension providers you're considering before making a final decision over which scheme to go with.

Using our ratings to help you shortlist

If you are faced with having to choose which workplace pension scheme to use for your business, our Star Ratings could prove a very useful tool.

They allow you to see instantly where a pension scheme sits in the market, based on the quality and comprehensiveness of the features and benefits it offers. When it comes to auto-enrolment, there isn't really anywhere else you can get a free list of all the schemes and get some information on how they all compare against each other.

Perhaps because of this, more and more employers are now using our ratings to help them decide which workplace pension to use for their business. So if you are Jenny or John in accounts with no pension experience, when your boss asks you to find some suitable pension providers for auto-enrolment, you can come to our website and pick out those with the highest Star Ratings.

It's a great starting point.

Once you've done that, many employers tend then to look at payroll compatibility to narrow down the search some more.

Star Ratings at-a-glance

Defaqto rates every auto-enrolment pension scheme from 1 to 5 Stars. That helps you see where it sits in the market in terms of the quality and comprehensiveness of the features and benefits it offers.

defaqto 2015 ★★★★★ Auto-Enrolment

An excellent product with a comprehensive range of features and benefits.

defaqto 2015 ★★★★ Auto-Enrolment

A product with a good level of features and benefits.

defaqto 2015 ★★★ Auto-Enrolment

A standard product providing an average level of features and benefits.

defaqto 2015 ★★ Auto-Enrolment

A product typically offering a below average range of features and benefits.

defaqto 2015 ★ Auto-Enrolment

A basic product, with a low level of features and benefits.

When you have a final shortlist of, say, three providers, you can dig down to find out whether those providers would take you on. For example, you'll need to know whether they would take on someone in your industry, whether you need to have a certain number of employees and whether there are any restrictions on the pension contributions you can pay.

You can find out some of this information at defaqto.com. For the rest of it, you may need to visit the provider's website or give them a call.

Similarly, if your accountant, payroll bureau or financial adviser suggests a number of schemes to choose from, a quick visit to defaqto.com can tell you which of them is the highest quality.

Consider the future when choosing your scheme

When you're selecting a pension scheme for your business, it can be tempting to base your decision only on your needs today. However, having the flexibility and options that come with higher Star Rated schemes can be important – even if you don't intend to use them right now.

For instance, let's say you've selected one of the schemes available that only allow you to contribute the statutory minimum pension contributions, which are currently just 2%. That may be fine for the moment, especially if your employees have never had a workplace pension from you. But what happens a few years down the line if you find you want to start contributing more towards employees' pensions?

If your scheme doesn't allow you to do so, you may have to go through the pain and upheaval of choosing a new scheme once again. Which, for many employers, will be something they'd really prefer not to do.

And don't forget the recruitment angle, either.

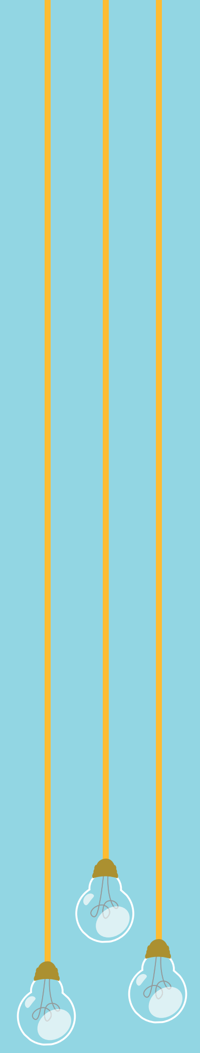
A good quality pension scheme can be an excellent tool for hiring and retaining talented employees. And indeed, skilled professionals often now consider the quality of pension schemes and contributions when choosing future employers.

All else being equal, who else would you choose to work for? The employer who looks after your interests and contributes a decent amount to your pension? Or the one who doesn't?

To see Defaqto's Star Ratings for auto-enrolment pension schemes, visit defaqto.com

defaqto

Richard Hulbert is an insight analyst at the independent financial research house, Defaqto. With over 20 years' experience in financial advice, he now works with advisers on their propositions, research and due diligence and presents at industry forums and events. He is also responsible for the Star Rating of auto-enrolment schemes.



GPP vs master trust: which one works for auto-enrolment?

By Iain Clacher, associate professor of finance and the joint director of the Centre for Advanced Studies in Finance at the University of Leeds

More and more small businesses are due to implement auto-enrolment. However, for many of them, it's difficult to get to grips with the issues in a subject they may never have considered before.

One of the choices an employer faces is whether to adopt a scheme based on a master trust or a group personal pension.

Group personal pensions can be cost-efficient for employers

Group personal pension schemes (GPP) have an important role in the auto-enrolment market. The structure is cost efficient compared to the cost of sponsoring a defined benefit plan.

A GPP is held with an insurance company, and the contract is between the employee and the pension provider, with the employer sitting as a conduit between the two.

One of the reasons for the popularity of GPP structures in the late 1990s and early 2000s was the decline of defined benefit pensions. The employer's obligation was to pay contributions. The employee received a pension based on the final value of the pot accrued, and the annuity that could be bought in the market place.

Master trusts can work well for auto-enrolment

Master trust arrangements are useful for smaller employers and in industries where workers remain in the same sector, but switch employers.

With a well-designed master trust, employers will be able to access a pension fund for their employees that is relatively cost efficient, with clear governance and oversight.

The master trust structure means the scheme has:

- a single trustee board
- a single set of advisers, and
- oversight over the investments made in the trust as a whole.

Consequently, there are economies of scale to be gained by using a master trust, as the costs associated with running the scheme are pooled across a number of employers called sponsors. Moreover, sponsors have a much lower level of involvement in the scheme compared to traditional defined benefit or defined contribution group pension plans.

Iain Clacher, associate professor of finance and the joint director of the Centre for Advanced Studies in Finance at the University of Leeds

The pros and cons of each model

	Group personal pensions	Master trusts
Advantages	**1.** For employers who have low employee turnover, a group personal pension means the process should be straightforward when it comes to re-enrolments as: - there is a stable workforce, and - as an employer, the sponsor remains the same. **2.** The annual management charge is generally low and this means member outcomes are better as GPPs are a generally low-cost solution. **3.** These types of pension are generally provided by a large insurer, who has considerable experience in running this type of scheme. **4.** Group personal pensions have a governance regime that is much lighter than the governance and regulation associated with a defined benefit pension.	**1.** They are a low-cost solution for employers. As contributions go into a pooled fund with only one trustee board and one set of advisors, costs are lower and there is better oversight of the fund. **2.** As the master trust is a collective vehicle, the fund will generate economies of scale over the longer term. Again, this leads to cost efficiencies as scale increases the funds buying power. **3.** The annual management charge is lower. As the costs of running the fund come out of member contributions, so in a defined contribution pension, this can have a dramatic effect on member outcomes.
Disadvantages	**1.** As with any defined contribution pension, the costs and charges associated with the fund have a considerable bearing on member outcome. This means while the annual management charge can be low, some older schemes may have higher charges. **2.** The current governance regime is less onerous than the current defined benefit regime. However, it's likely to become progressively more burdensome over time given the increased use of the structure as a result of auto-enrolment. **3.** Access to a group personal pension is not always possible. For example, group personal pension providers may not take on small employers with high employee turnover and lower salaries.	**1.** There are issues around governance associated with master trusts. While the single trustee board is useful as it has oversight of the whole fund, it is unlikely to have any employer representation on the board. As a result, employers are unlikely to have any say over how the fund is run. **2.** Over the past four or five years, there has been an influx of new players into the market. One of the main advantages of master trusts is scale, but many of these new entrants don't have an insurance company standing behind the trust. Instead, they will have raised finance through borrowing or other investors, and this means there is an unclear cost structure to the business. That makes it difficult – if not impossible – to see what the actual costs of the model are. **3.** Many master trusts are for profit. Given the thin margins this business generates, the level of market competition, and the time it takes to generate scale and returns, the longevity of many schemes must be questioned.

What are the key considerations for employers when thinking about which pension provider to use?

First, regardless of whether an employer is looking at master trusts or group personal pensions, employers have to understand the costs of the scheme they are selecting. Costs matter and have a significant bearing on member outcomes.

Second, employers have to consider the nature of their workforce. An industry-wide scheme may be useful where there is high employee turnover.

Third, employers should understand who is providing the pension. A large number of new entrants have entered the pension market, and not all of these providers will survive.

Finally, employers should also consider:

- the governance of the scheme
- the scheme's standards on investment governance
- the level and scope for employer input, and
- the independence of the trustee board.

Change is coming for pension providers

I believe the pension provider landscape is likely to change significantly over the next few years.

It's likely many of the new entrants to the master trust market will disappear from the market or merge with larger, more established master trusts.

Many new master trust schemes have raised finance to start up. This finance has a cost. Given the small margins and the need for economies of scale to become profitable in this market, it's not possible for all of these providers to survive. The trend over the coming years will be one of consolidation. The international evidence in countries with automatic enrolment shows fewer providers with greater scale.

For all providers, there will be an increasing focus on governance and regulation. The speed and extent to which this happens will depend on how consolidation occurs. Scheme failure and instances of poor member outcomes as a result of excessive cost or bad management will simply expedite regulatory creep. The final trend that will create the need for consolidation is the inevitable introduction of a method to allow employees to consolidate multiple pension pots.

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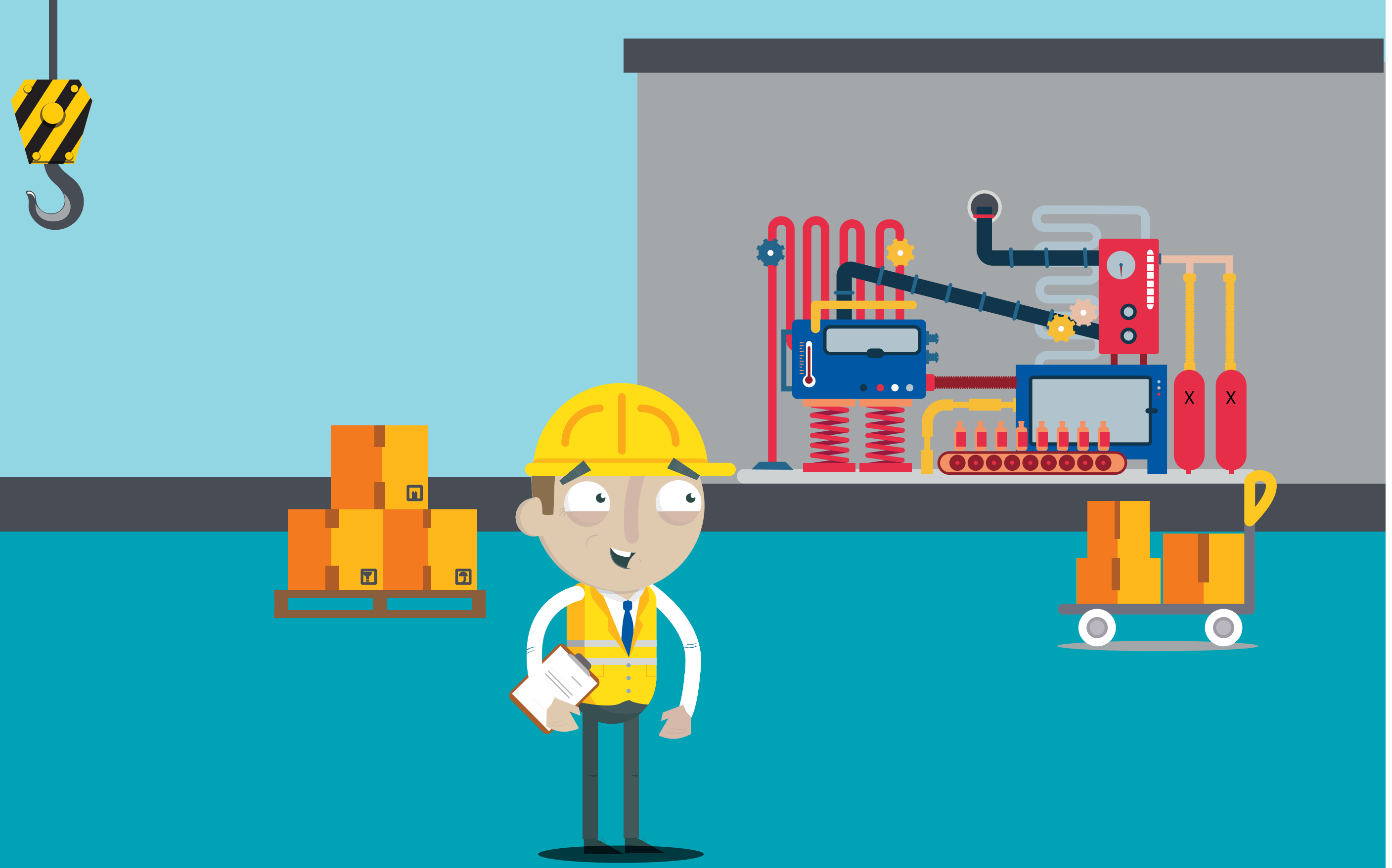
Iain Clacher is an Associate Professor of Finance and the joint director of the Centre for Advanced Studies in Finance at the University of Leeds. He is an expert in pensions, with research covering behavioral economics, investment, regulation and sustainable pension systems. Iain is also a consultant and has worked with a range of organisations, including FTSE 100 companies, the CERN Pension Fund, The Work Foundation, The City of London Corporation, and The NAPF.

Iain's interest in auto-enrolment stems from the impact it will have on aggregate savings if successful and the challenges and barriers to creating a sustainable retirement savings solution for the UK.

Get help with auto-enrolment from your accountant

By Mark Asquith, managing director, Asquith & Co



As auto-enrolment begins to hit smaller employers, I think it will become increasingly obvious that accountants have an important role to play in the process.

Most small businesses don't have a full-time payroll person on staff, so they outsource their payroll needs to accountancy firms like mine.

We're an obvious choice to help them send payroll data to their chosen pension provider because we're already handling that data.

Six ways your accountant can help you with auto-enrolment

1. Presenting you with scheme options

Every accountancy firm offering payroll services will operate payroll software. If you're going to ask your accountant to handle your auto-enrolment scheme, you need to be sure their payroll software is compatible with the scheme you want.

Most accountants will run payroll software that's compatible with several schemes, especially those offered by the big pension providers. If you have a scheme in mind, check with your accountant to see if it's a match with their software. Alternatively, you can ask your accountant for a list of the schemes compatible with the software they're running.

Unlike a financial adviser, an accountant won't recommend a scheme for you to use. We're not in the business of recommending or telling you who's the best fit for you.

If you want to know more about the schemes, you can look up the ratings given to each scheme by Defaqto. Your accountant will be able to help you find factual information about your options.

If you want to use a financial adviser, make sure you're aware of what they can and can't do for you. They can recommend a scheme, but won't be able to handle the payroll deductions for you. You need to make sure you know exactly what their fee covers before you sign on the dotted line.

2. Assessing your employee data

A major part of getting auto-enrolment right is making sure you enrol the right employees at the right time and pay the right contributions.

All of that can be very involved, especially when pensions and financial affairs aren't your usual bread and butter. Some pension providers can help you with this, but some don't.

Your accountant may be able to help you assess and cleanse your data. This will have the added benefit of improving your payroll data. It may also help you reduce the risk of not complying with auto-enrolment rules and regulations. In turn, that lessens your chances of being fined for not meeting all your auto-enrolment obligations.

With all that in mind, it's definitely worth asking your accountant if they can help make sure your data is up to scratch.

3. Collecting pension contributions

Using an accountant is about more than just picking a scheme.

With auto-enrolment, you must contribute to each employee's pension providing they also make the required level of contributions from their own money. Collecting the contributions from both you and your employees and forwarding them to the pension provider is one of the main duties an accountant can handle on your behalf.

As an accountant already manages your payroll data, handling the pension contributions sits nicely alongside any payroll duties they carry out for you.

More than simply collecting the contributions, your accountant can help you judge scheme affordability based on your bottom line and calculate appropriate contribution levels. With your accountant's help, you can plan ahead, assessing the effect of higher remuneration costs on your business.

Mark Asquith, managing director, Asquith & Co

4. Sending out statutory auto-enrolment communications to employees

One of the big burdens accountants can lift from your shoulders is the statutory communications you need to send out to your employees. Within six weeks of your staging date, you must write to staff who:

- are being automatically enrolled, explain what you've done and give them details of the scheme you've chosen for them
- have a right to opt in to an auto-enrolment pension scheme, explaining how it applies to them
- have a right to join a pension scheme, explaining how auto-enrolment applies to them.

Your accountant can set up their payroll software to send these letters automatically according to the data. That frees you up to spend your time focusing on your business.

5. Understanding the regulatory aspect of auto-enrolment

Your accountant is well placed to help you understand the rules and regulations around auto-enrolment and the consequences of not meeting your obligations.

As an employer, you need to make sure you keep good records for your pension scheme, including your communications with your employees, contributions and so on.

The Pensions Regulator is keen to make sure firms don't shirk their obligations, so it is keeping a close eye on auto-enrolment staging. It's also not shy of fining firms that don't perform all their auto-enrolment duties. Getting on the wrong side of The Pensions Regulator over auto-enrolment is the last thing you need.

It's likely that your accountant has helped other clients carry out their auto-enrolment duties and so will be far more familiar with the rules and regulations than you are. Ultimately, responsibility for carrying out your auto-enrolment duties rests with you, but you could benefit from your accountant's regulatory experience with other clients.

6. Giving you reports, analysis and help with re-enrolment

Auto-enrolment isn't a one-and-done thing; it's an ongoing commitment.

At the very least, you'll have to go through re-enrolment every three years. In the meantime, you could find it useful to find out:

- how many of your employees have stayed in the pension scheme
- how many have opted out
- how much your employees are paying into the scheme and what that means for your contributions.

You could learn much from the information your accountant can report back to you on auto-enrolment. And the better informed you are, the better prepared you can be when you're looking at the impact on the profitability of your business.

Choose your accountant wisely

If you're going to use your accountant to help you meet your auto-enrolment obligations, you need to make sure they're up to the job. While many accountancy firms will be up to speed with auto-enrolment, some may not.

> "**59%** of small and micro businesses indicate they will turn to an accountant for help.
>
> This rises to **70%** for employers with one to four workers."
>
> NEST, 2015

Here are a few tips on what to do when you're looking for an accountant:

Ask about their experience of and preparations for auto-enrolment

Don't be afraid to ask your existing or prospective accountant questions about auto-enrolment. If you're going to trust them with your employees' pensions, you need to make sure they know what they're doing.

Find out if they've gone through auto-enrolment themselves

I brought the staging date for my firm forward to make sure we knew what it felt like to go through auto-enrolment. Nothing teaches you about a new procedure more than experiencing it yourself. Having been through it, we know where the pitfalls are and how to avoid or address them.

Find out if they've trained their key staff in auto-enrolment

If they haven't been through auto-enrolment, ask what training the accountancy team have been through for auto-enrolment. My payroll manager and I attended a two-day course with an auto-enrolment expert.

Ask if they run seminars or training days on auto-enrolment

I found the course I went on so useful, I booked the speaker for a seminar on auto-enrolment my firm ran for local business owners. I've also run a couple of sessions myself. Knowing people will be looking to you as the resident expert focuses your mind and forces you to be sure you know your stuff.

Make a start sooner rather than later

Auto-enrolment is here to stay and the penalties for not complying are punitive. Even if your staging date is not for some time, it's worth doing what you can to make sure you get off to a good start.

You can begin by making sure your payroll information is up to scratch. That will help your business anyway, regardless of auto-enrolment.

If you've got an accountant already, make an appointment to talk to them about auto-enrolment and what it could mean to your business.

If you don't have an accountant, start looking around, asking for recommendations from other business owners, or calling a few accountants to find out more.

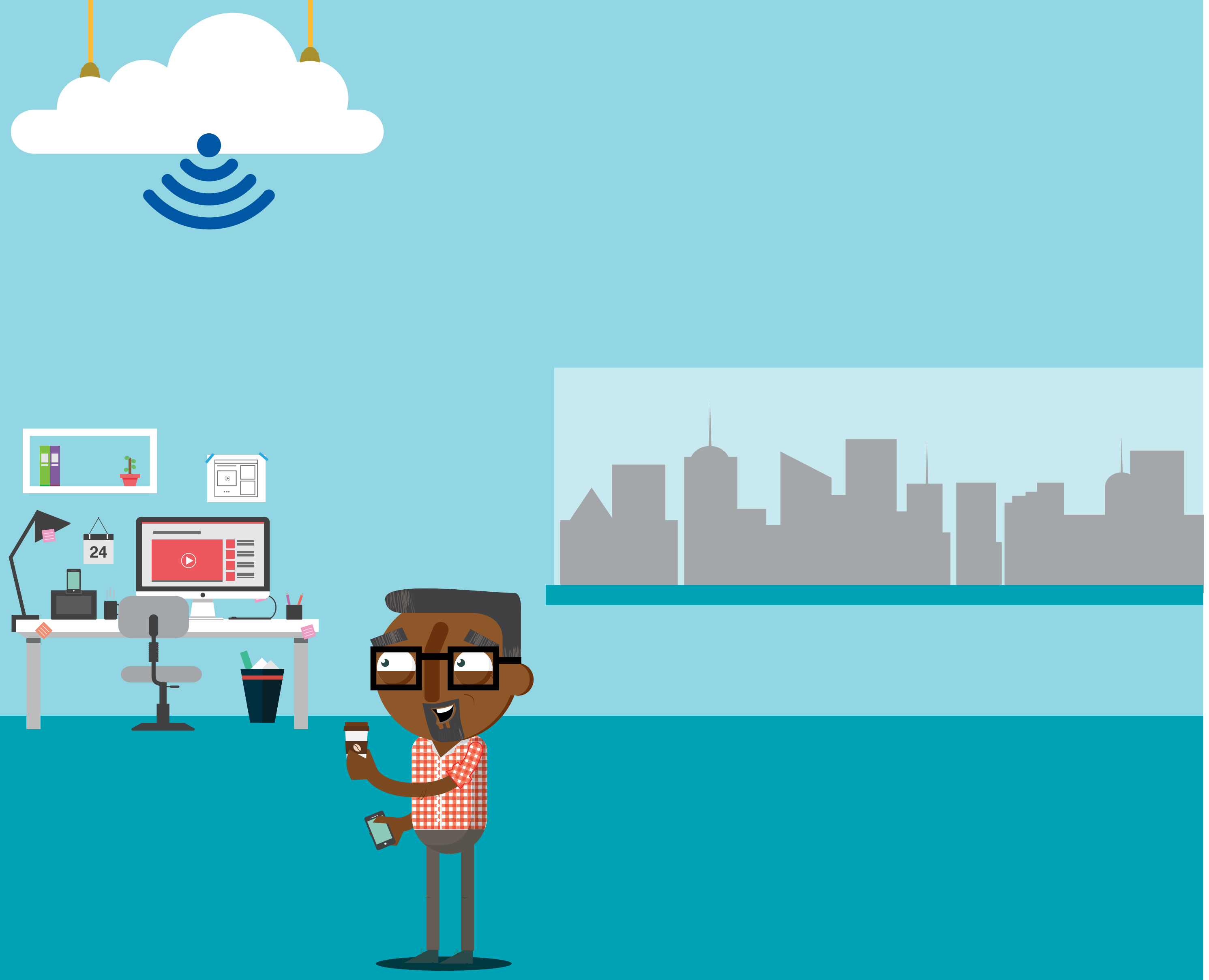
Like I said, auto-enrolment isn't a flash in the pan, so the sooner you get a finance professional on board to help you sail smoothly through it all, the better. And, for my money, the best thing you can do is sign up an accountant to guide you through the potentially choppy waters of auto-enrolment.

Asquith&Co
CHARTERED CERTIFIED ACCOUNTANTS

Mark Asquith qualified as a chartered certified accountant in 1998. Mark had trained in practice and worked in industry before opening the doors to his own accountancy firm in 2001. Asquith & Co Accountants Limited now provides accountancy and payroll services to over 700 SME businesses. The practice has a thriving payroll bureau with over 250 live employer payrolls, calculating tax and automatic enrolment pension deductions for several thousand staff a month.

Working with your payroll provider

By Claire Treadwell, senior product manager, IRIS Software Group – Payroll Division



My main responsibility is to look after the product management and training teams. Within this, my role is to look after the payroll product roadmap. This is a master document that we use to literally map out the process we need to follow to develop a piece of our software effectively.

In addition to this, I oversee the training and documentation teams. In this role, I'm highly involved in ensuring our clients have all of the necessary information and guidance they need to remain compliant; something that I am very conscious of.

What is your interest in auto-enrolment?

Auto-enrolment is the biggest change to payroll and pensions since Real Time Information (RTI) payroll was introduced. Even for payroll software providers like us; it was a complex, time-consuming piece of legislation to get our heads around. We couldn't imagine how smaller and micro-employers felt about dealing with auto-enrolment, so the development team and I are always working on ensuring that IRIS payroll customers are compliant with the workplace pensions legislation. We've achieved this through a multitude of aspects; notably our training and support as well as our auto-enrolment solution, The IRIS AE Suite™.

I've worked closely with The Pensions Regulator to create the communications element of the IRIS AE Suite™ and ensure it is compliant. The Pensions Regulator checks the letters issued via the IRIS AE Suite™ word for word to ensure they are legislatively compliant.

My team is also responsible for creating training materials and documentation. We use these internally as well as to help our customers become more knowledgeable about auto-enrolment and their responsibilities. We train our staff to become auto-enrolment experts, so they can help and guide existing and potential customers and pass on their auto-enrolment knowledge.

How has auto-enrolment affected you and your business so far?

Auto-enrolment has kept me busy for the past four years. We have learnt a lot about the legislation and how it is implemented within businesses. We've used this knowledge to further develop and refine our auto-enrolment solution, so our customers remain compliant whilst also streamlining their entire payroll process.

Auto-enrolment has been a steep learning curve for IRIS as a whole. The legislation is complex and can be difficult to convey to customers, but we achieve this through our educational content such as webinars, seminars and training days.

I love the challenge of making solutions fit the legislation and ensuring we remain up to date with our knowledge whilst producing the best solution for our customers.

Why is it important to consider payroll software when selecting a pension scheme?

Payroll is key to auto-enrolment because it holds all the data for assessment and all the payment details pension providers need. Payroll is the ideal place for assessing the workforce and ensuring you are meeting your key duties.

Doing assessment outside of payroll will not only lengthen the process, but it can mean the payroll needs to be processed twice. This is because you still need to enrol the workers and take relevant deductions from them.

Claire Treadwell, senior product manager, IRIS Software Group – Payroll Division

In addition to this, you need to make sure the payroll software can "talk" to your chosen provider. This means being sure that the assessment and payroll details file produced within payroll is compatible with your chosen pension provider. Think of having an incompatible pension scheme as trying to fit a square plug into a round hole – it doesn't work. If you have a pension provider that is compatible with your output files, it streamlines the whole process, making your life easier.

One major thing to check is the quality of the pension scheme on offer and whether the provider offers a good service. Unfortunately, some may be more difficult to work with than others and this can cause friction when trying to communicate and upload files. A successful auto-enrolment process is one that streamlines your entire payroll, so making things as easy as possible for yourself is paramount.

What are the key questions SMEs and their payroll administrators should ask their payroll provider to ensure their business is ready for auto-enrolment?

Some providers will offer solutions that aren't fully automated. It is important you find one that is fully automated to save time and ensure that mistakes aren't made. So, you should ask your payroll provider these questions:

- Does the payroll software assess employees automatically with each payroll run?
- Does it automatically enrol the workforce into a qualifying scheme or do I need to do this manually?

Generating the correct communications is essential and you must ensure that they reach the right workers within the allocated time limits. This is imperative to your business remaining compliant. It is important you have systems in place to ensure you don't breach the legislation. You should be asking providers:

- Can the payroll generate the required communications automatically?
- If so, how is this delivered?
- Can communications be printed for those employees without email address?
- Are communications stored internally to meet the auditing requirements of The Pensions Regulator?

What problems are employers finding post staging?

The majority of problems are caused by misunderstandings surrounding postponement. Some employers believe postponement delays the auto-enrolment process and fail to send out any communications to the employees. This results in the employer having to manually assess the workforce and work out the contributions that should have been paid to the pension providers so eligible jobholders can be enrolled as if postponement wasn't applied. Another misconception is that postponement pushes back a company's staging date. This is not the case, there are still duties that need to be undertaken to comply with the workplace pension legislation.

Another thing that needs to be cleared up is the responsibilities and duties an employer must perform when they reach their re-enrolment date. This includes identifying which employees need to be re-enrolled and re-submitting a Declaration of Compliance (DoC) to The Pensions Regulator to be continually compliant after this date. There is a lot of confusion around re-enrolment dates and the time frame during which employers must re-submit their DoC.

What are the most frequent questions from SMEs about to auto-enrolment?

How do I set up my pension provider payments?

One of the most difficult things to set up is the payment element. SMEs are not used to creating pension payment elements, which often results in confusion, especially when pension providers and payroll providers use conflicting format language.

How do I use postponement?

Employers don't always understand that postponement can be used more than once. So when the software uses the automatic postponement rules, this can cause confusion.

Why has this person been enrolled a period early?

Pay reference periods are possibly the most confusing element of auto-enrolment. Most employers can't get their head around the fact that your pay date dictates the pay reference period, not the period of work. This is very confusing as it conflicts with other PAYE reference periods. It took me a while to understand it, so I can't imagine what it would be like for someone in a small/micro business without any full-time experience with payroll!

How can employers make sure they consider their future needs as well as what's important today?

Employers need to ensure the payroll and pension providers work together. A good working relationship between the pension and payroll providers will result in a good auto-enrolment solution.

As well as this, employers need to look at the time and effort spent on ensuring their auto-enrolment solution is correct for them because it's now a permanent fixture within payroll.

They also need to ask themselves:

- What does the solution look like and how does it work?
- What do the customer case studies say about the solution?
- Does the payroll software handle the required payment elements?
- Does it handle all the elements you need?

When you've answered these questions, you're on your way to auditing your payroll future and making sure your current solution is both good for today and will grow and evolve with your business.

Anything else you think other businesses should think about before choosing a pension provider?

- Make sure your scheme is a qualifying scheme as not all pensions are
- Make sure your scheme links to your payroll
- Make sure your scheme provider offers excellent customer service

Any other questions and answers you think are relevant to help with the content?

One thing I need to stress is the amount of time employers need to spend on preparing for auto-enrolment. The Pensions Regulator recommends you spend at least 12 months before your staging date preparing to ensure you get your head around the vast amount of knowledge that will be coming your way. Your payroll provider is there to help and, at IRIS, we have a range of training webinars and seminars you can attend to further your knowledge of auto-enrolment.

Claire Treadwell
Senior product manager, IRIS Software Group – Payroll Division

Claire joined the HR and payroll software industry in 2001. Today, Claire manages the IRIS payroll division's product and training teams, the experts that create payroll software solutions for SMEs throughout the UK.

She is passionate about delivering quality automatic enrolment solutions to the SME market, believing that payroll is best placed to efficiently manage this complex legislation.

Ease the pain of auto-enrolment with the help of a financial adviser

By Simon Reynolds, technical director – Corporate Pensions & Employee Benefits, HFM Columbus

Auto-enrolment is a step change from previous attempts by the government to get employees to engage with a pension. Instead of trying to convince people having a pension is a good idea, the approach now is to force people to have a workplace pension. That means every employee that meets certain criteria will have a company pension unless they make an active decision to opt out of it.

In my experience, there are broadly two types of employers when it comes to auto-enrolling their staff into a company pension scheme:

1. "This is a good thing."
These employers look at auto-enrolment as a positive thing. Because of that, they're looking for a well-considered and market competitive workplace pension that's a good fit for their employees and will be seen as a valuable benefit.

2. "Just get it done."
These employers want to set up a compliant scheme as cheaply as possible. They'll go through the motions so they don't get a fine, but it's a chore rather than a priority.

There doesn't seem to be much middle ground – the approach is polarised from what we've seen so far.

We've been working closely with large employer clients since auto-enrolment first came in back in 2012. For many of those employers, we're coming up to the first required triennial review date, where a number of duties and obligations need to be adhered to to ensure continual compliance.

We're also now talking to businesses with around 30 employees with a view to getting them ready for auto-enrolment. Through our private client side, no doubt we will also have a tail of very small businesses, all of whom need help sourcing, setting up and managing a suitable pension scheme for their employees.

Auto-enrolment is about getting your processes right

Regardless of how big your business is, from an employer's point of view, auto-enrolment is equally to do with processes and compliance as it is with making sure employees have a pension (one which ideally they value and understand!). That's the philosophy we've used with all the clients we've taken through auto-enrolment.

If you get all your processes and your compliance right, combined with an effective communication strategy, as a business you'll be absolutely fine. Plus, your employees will end up fully engaged with the idea of a pension and the importance of saving for retirement.

Having decided on a suitable pension scheme design/strategy, the key things you need to think of it in terms of what you need to do every month are:

- assess the workforce to determine who is eligible for auto-enrolment
- effectively communicate with employees (including statutory notifications)
- auto-enrol eligible employees and any who opt in following the assessment
- keep records
- ongoing scheme governance.

You need to check whether there are any changes to pensions and build that into your monthly or weekly process.

Even if you're a small employer with only three or four employees, you need to make sure you're ticking all the boxes every month. If you employ someone new, you need to know that you can do everything necessary to enrol them in your pension scheme, collect contributions and so on straight away.

Simon Reynolds, technical director – Corporate Pensions & Employee Benefits, HFM Columbus

If your processes don't let you do that, you run the risk of not complying with your regulatory duties. And non-compliance means the strong possibility of a fine from The Pensions Regulator.

Start thinking about auto-enrolment as soon as you can

Most of the stats about how long it takes a company to choose, set up and stage their pension scheme relate to the larger employers. These are the firms that have already been through it, so it makes sense that the numbers reflect their experience.

For smaller employers, it may take less time to actually set up the scheme because they have fewer employees. However, we think it's sensible for smaller employers to start thinking about their pension scheme strategy and budget at least 12 months before their auto-enrolment staging date.

By six months before the staging date, an employer needs a clear idea of who they are going to work with to help implement and roll out their required workplace pension scheme. By this point they should know:

- the likely scheme design
- who will be carrying out the assessment piece (payroll, pension provider, technology hub)
- what the budget will be for pension contribution levels (in line with or above initial auto-enrolment statutory minimums or destination auto-enrolment minimums?)
- the earnings definition to be used for any percentage pension contributions (that is, base salary, total earnings or qualifying earnings)
- whether they are going to adopt any postponement period (ie, deferred period before auto-enrolment).

As an employer, you need to have all of this nailed at the six months' point. That gives you three months to fine tune it all and set up your workplace pension scheme. Once that's up and running, you've got plenty of time to hit your staging date and get to grips with the monthly processing.

There's a lot to think about and a good independent financial adviser can help walk you through the all the key points.

A financial adviser can save you time and money

For an employer, the main benefits of working closely with an independent pensions adviser to fulfil their auto-enrolment duties and obligations are the time and money this will save them. This includes both initial work (sourcing, scheme design, implementation and roll out) and the ongoing work (continual compliance, member communications and governance).

It would be quite time-consuming for an employer to approach multiple pension providers directly for information on their auto-enrolment pension schemes.

Not all providers will offer a suitable scheme, especially for smaller employers. So employers may waste a lot of time there. And then they also have to read through all that information before they can make an informed decision.

As an employer, you can cut that time down by coming straight to a financial adviser for help. Because we work regularly with all the leading pension providers, most advisers know:

- which ones have a scheme that will work best for your business
- what issues different providers face
- their strengths and weaknesses.

By cutting to the chase like that, we can save employers considerable time and, ultimately, money too on the number of man hours they use researching auto-enrolment schemes and providers.

Six questions to ask potential pension providers

1. How financially strong are you?
2. How good is your service?
3. What is your position in the market?
4. What are your charges?
5. How easy will I find it to deal with you?
6. Do you have an in-house auto-enrolment hub or links with any technology firm?

A financial adviser can also help you educate your workforce on auto-enrolment, the merits of the particular scheme and the importance of saving adequately towards retirement. Many employers see this as an increasingly crucial part of their responsibility, and accordingly engage with an independent specialist adviser to provide workplace-based guidance sessions. With our clients, at HFM Columbus, we pride ourselves in not only setting up suitable market competitive and compliant schemes, but really adding value to employers through member engagement strategies. This includes branded group and individual one-to-one sessions as well as ongoing corporate governance.

In our experience, there are a number of additional things you can offer employees to further optimise engagement and ultimately help with recruitment and retention. For example, we have already had a great deal of success and positive feedback from running pre-retirement planning workshops (particularly now with the increased flexibility in the way individuals can receive their retirement savings).

Three tiers of advice for businesses

As with everything, the service you get from a financial adviser will depend on how much you're willing to pay.

In relation to auto-enrolment, broadly we offer different levels of service depending on what the client wants us to do for them and how much they're willing to spend.

1. The basics

We offer a service giving very straightforward, basic help to an employer. We'll take them through the key choices they must make and list the dates they need to hit. After that, it's up to them to see it all through.

2. Building on the basics

With this, we offer the employer much more support. We'll hold their hand through the key dates, including their staging date. We'll also check they've done the right thing at the time and help with the initial communications. From the employer's viewpoint, it's still very much in the do-it-yourself vein, but we offer them more support and help troubleshoot issues.

3. Ongoing partnership

With this tier, the employer is interested in looking at the whole suite of employee benefits and how they can engage with their employees. They'll want us to look at everything from pension freedoms to different life stages and what all of these could mean to their employees. For these clients, we offer a full consultancy service.

You don't have to work through auto-enrolment alone

As an employer, you may be worried about the time you need to spend on auto-enrolment and the decisions you'll have to make. For most employers – especially those with only a few employers – your strength is your business area, not thinking about pensions.

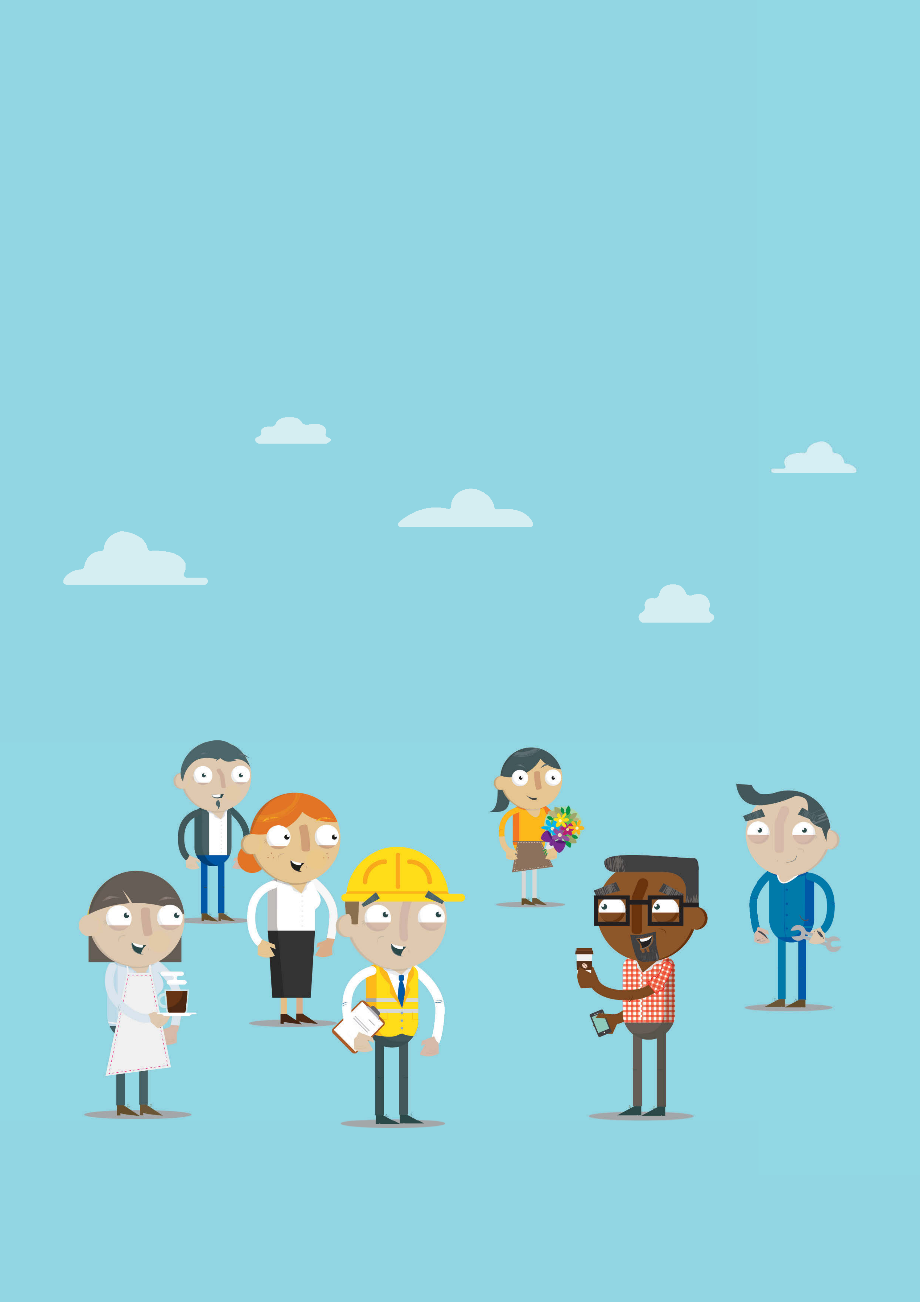
The final decisions on all aspects of your auto-enrolment scheme and the day-to-day admin rest with you. However, a financial adviser can help you understand your choices and what those choices could mean for you and your employees.

So, if you want to make auto-enrolment as painless as possible, maybe it's time to think about appointing a financial adviser to help you.

HFM COLUMBUS

Simon Reynolds is a Fellow of the Personal Finance Society and a Chartered Financial Planner with over 25 years' experience in financial services. He's spent the last 15 years focusing on the pensions and employee benefits market. Simon has already successfully helped a number of companies (including a FTSE 100 company) through their auto-enrolment staging dates. Simon and his team are now working closely with a number of businesses, helping them with all aspects relating to pensions and employee benefits.

HFM Columbus is a multi-disciplined IFA practice, offering its clients innovative thinking and traditional values. Its highly qualified adviser teams help a broad range of individual clients achieve their most important financial planning needs and investment objectives. On the employee benefits side, HFM Columbus provide bespoke pensions and employee benefit solutions to corporate clients. With offices in London and Surrey, and our coveted Chartered status, we are well placed to service our clients' needs.



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