

Current Issues in Pensions
Will Aitken, Towers Watson

Auto-enrolment lessons learned

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Where are we now?

- All systems go!
- Key legislation published? ✓
- Guidance available? ✓



By the end of 2013, legislation applies to employers with more than 500 employees on largest payroll



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Plan

- Some issues encountered to date:

1 Knowledge gaps still exist

2 Defining workers

3 Expatriates/inpatriates

3

Plan

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1 Knowledge gaps still exist

2 Defining workers

3 Expatriates/inpatriates

Case study

Media company

'Self-employed' make-up artists

- Position not clear from the Pensions Regulator's guidance
- Decision ultimately based on who supplies the make-up



Key learning point: Be pragmatic – Is doing the minimum the best approach?

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Build

- Some issues encountered to date:

1 Scheme design

- Existing schemes typically retained unless:
 - Can't easily be adapted
 - Already have more than one scheme

2 Contributions

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Build

- Some issues encountered to date:

1 Scheme design

2 Contributions

- Existing employee contribution levels retained
- Increasing use of "minimum" contribution structures

Case study

High street retailer A

- Minimum contributions for new entrants (due to budget constraints)

Investment bank

- Minimum contributions for employees in the offshore plan/overseas workers



Key learning point: Be prepared to be flexible

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Myth – ‘If I enrol everyone, my troubles are over’

Different groups of employees are entitled to different levels of pension provision:

		Age (inclusive)		
		16-21	22-SPA	SPA-74
Earnings	Total earnings over £8,105	Non-eligible jobholder	Eligible jobholder	Non-eligible jobholder
	Total earnings between £5,564 and £8,105	Non-eligible jobholder		
	Total earnings below £5,564	Entitled worker		

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Contractual enrolment



- You'll be enrolled
- We can deduct contributions
- Contractual enrolment pre-empts the auto-enrolment duty

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Contractual enrolment

1

**Contractual enrolment
can't be unwound**

2

**Monitoring requirements
remain**

3

What do contracts say?

Case study

Bank

- Significant group with Lifetime Allowance issues
- They'll be enrolled through auto-enrolment legislation to permit complete opt-out

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Contractual enrolment

1

**Contractual enrolment
can't be unwound**

2

**Monitoring requirements
remain**

3

What do contracts say?

Case study

- 21 year old contractually enrolled, opts out
- They need to be re-enrolled once they reach 22 and earn over £8,105
- Do you contractually enrol now, or wait and auto-enrol later?



Key learning point: Contractual enrolment can help, but care is required

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Myth – ‘Auto-enrolment has no impact on risk benefits’

“

“My group risk eligibility is not pension-linked, so I have no auto-enrolment implications.”

”

But what about...?

- Contractors/temporary/casual staff; people who didn't previously qualify for pension?
- Pension contributions within an income protection scheme?

“

“My pension plan take-up is high, so the group risk implications are nominal.”

”

But what about...?

- The inclusion of new or 'volatile' categories of employee
- Treatment of auto re-enrolled staff as late discretionary entrants

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Group risk benefits in an auto-enrolment environment Lessons learned

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Managing cost

- Introduce separate auto-enrolment sections
- Detach from pension scheme
- Re-design benefits

2

Managing underwriting and administration

- Medical underwriting
- Discretionary entrants
- Data and accounting processes
- Premium rate reviews

Case study

Manufacturing company

- 40% take-up rate
- Pension scheme members on higher death in service benefits
- Take-up likely to increase to 95%
- Concerns over loss of cover and potential liabilities
- Concerns over administration burden



Key learning point: Act early

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Implement

- Some issues encountered to date:

1 Most time consuming activity

- Tends to uncover the most 'surprises'
- Easiest area for problems to be missed
- Requires action from all employers

2 Can require changes in business processes

Case study

Energy company

- Almost 100% take-up
- Open Defined Benefit plan
- Already uses automatic enrolment
- No opt outs

Still has to:

- Identify workers
- Categorise them
- Keep auto-enrolment records
- Build processes that may not be used!

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Myth – ‘Open DB, so there’s nothing to do until 2017’

“
You have to enrol
new hires - processes
”

“
Do you want to enrol
everyone in DB?
”

“
You’re committing to
leaving DB open until
2017
”

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Implement

- Some issues encountered to date:

1 Most time consuming activity

2 Can require changes in business processes

- Is it easier to enhance or to change current processes?

Case study

High street retailer B

- November staging date
- Recruitment and communication through branch networks
- How do they control and record auto-enrolment specific activities? – e.g. start of the opt out window
- Led to centralisation of some activities



Key learning point: Be prepared to change established practices

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Myth – ‘My provider will take of everything’

Comparison of pension providers’ auto-enrolment services:

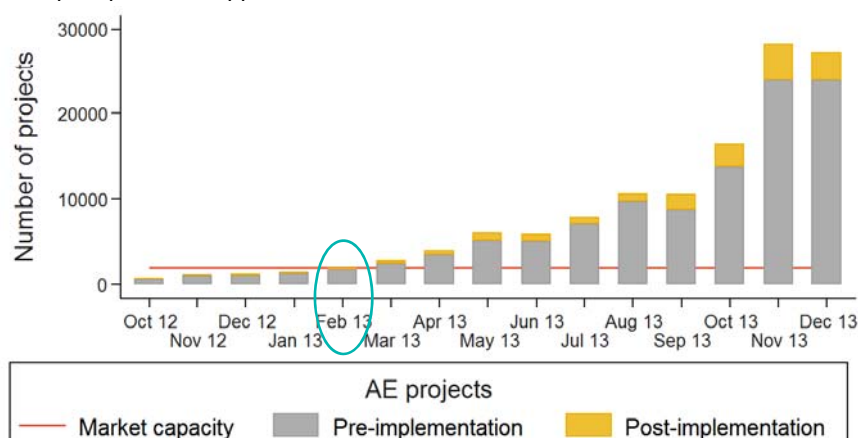
	Provider A	Provider B	Provider C	Provider D	Provider E	Provider F	Provider G	Provider H
Eligibility hub	●	●	●	●	●	●	●	●
No additional fees	●	●	●	●	n/a	n/a	●	●
Specialist implementation team	●	●	●	●	●	●	●	●
Pre-enrolment communications	●	●	●	●	●	●	●	●
Will create contribution files	●	●	●	●	●	●	●	●
Modular design	●	●	●	●	●	●	●	●
Links to NEST/other providers	●	●	●	●	●	●	●	●
Legal compliance undertaken	●	●	●	●	●	●	●	●

- Functionality available / no major concerns
- Uncertain functionality / some issues to resolve
- Functionality not present / major issues

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Provide capacity for auto-enrolment projects

All firms require provider support

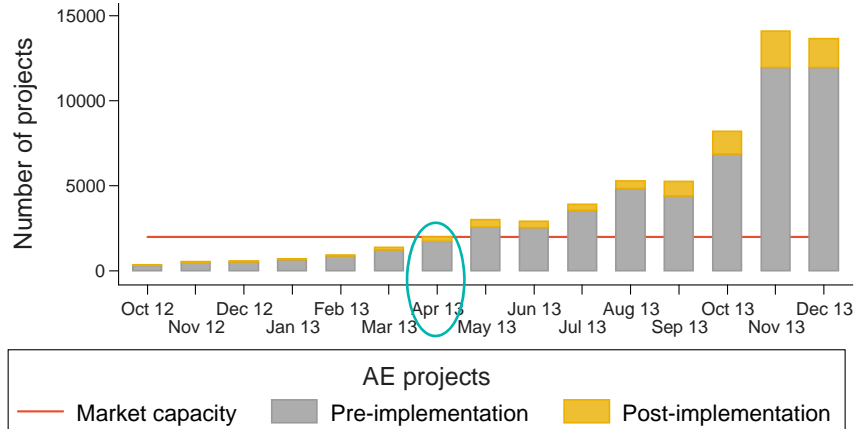


Source: Pensions Regulator and Towers Watson Research

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Provide capacity for auto-enrolment projects

50% of firms require provide support



There is finite provider capacity

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Payroll providers

72%

will not be offering bespoke software to their clients

50%

will only enhance specific products

12%

of payroll service providers have not heard of the legislation

CIPP research paper July 2012

Employers can't outsource the reputational risk that will follow from getting it wrong

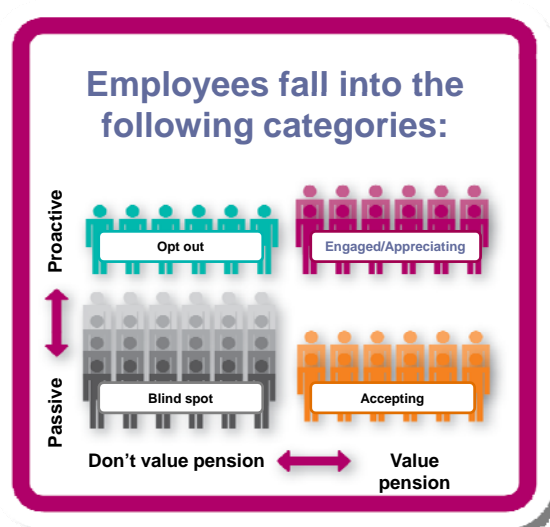
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Myth – ‘People aren’t interested in pensions’

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Beware the blind spot



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Vox pops 1: Auto-enrolment: Gut reactions



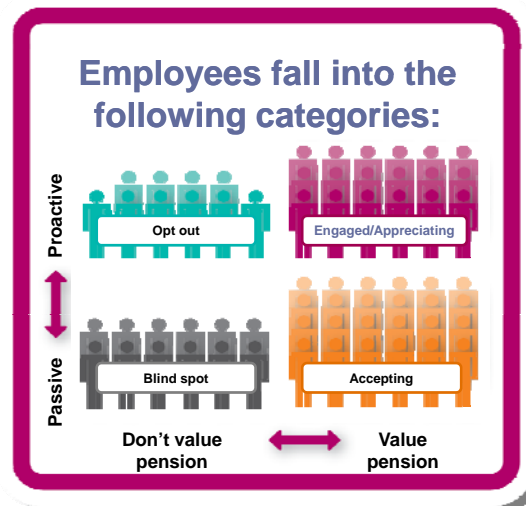
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Learning points #1

- Political hot topic
- Concerns expressed:
 - Current economic conditions
 - Impact on pay
 - Enforced, no choice
 - Security
 - Bankers
- Communicators/leaders within businesses need to be 'on board' with auto-enrolment aims

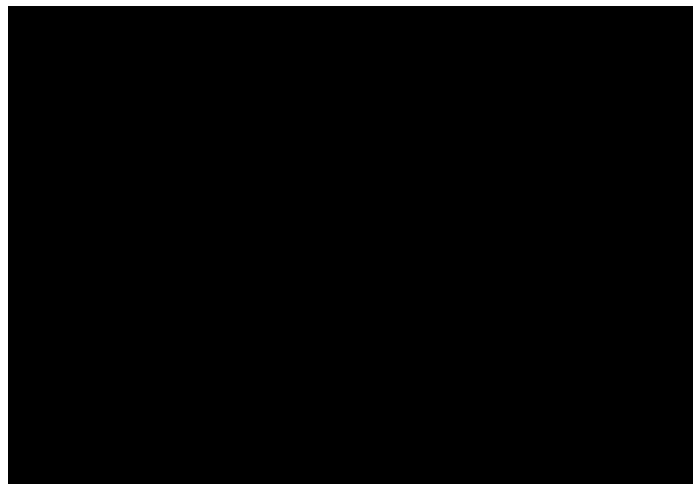
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Shrinking the blind spot



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Vox pops 2: Auto-enrolment: Considered reactions



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Learning points #2

- Take the initiative
- Present this as a Company benefit
- Highlight the Company contribution and how this fits with overall reward package
- Explain the context
- Use warm up communications
- Reassure about choices and flexibility to opt out
- Be aware of audiences and their existing viewpoints



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Final thoughts

Auto-enrolment is not just a pensions issue

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Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

