

**The Actuarial Profession**  
making financial sense of the future

Current issues in pensions - 2012  
Richard Sweetman, Towers Watson

## Auto-enrolment lessons learned

1 November 2012

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### “We’re all in”



**DWP** Department for  
Work and Pensions

## 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**

### 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

### 2 Contributions

#### 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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## 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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## Group risk benefits in an auto-enrolment environment

### Lessons learned

#### 1 Managing cost

#### 2 Managing underwriting and administration

#### 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**

**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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## Implement

- Some issues encountered to date:

**1 Most time consuming activity**

**2 Can require changes in business processes**

### Case study

#### High street retailer B

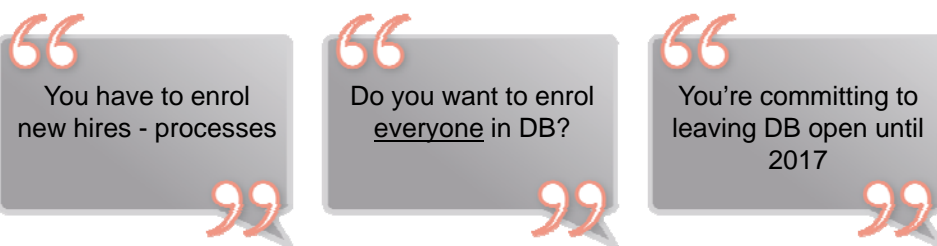
- November staging date
- Recruitment and communication through branch networks
- How do they control and record auto-enrolment specific activities? – e.g. start of the opt out window
- Led to centralisation of some activities



**Key learning point:** Be prepared to change established practices

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



**Certification of “qualifying schemes” will be required**

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## Myth – ‘My provider will take care of everything’

Comparison of pension providers’ auto-enrolment services:

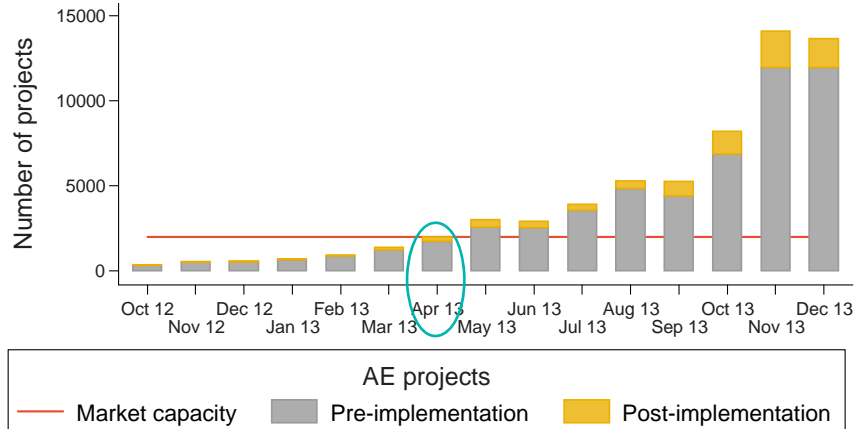
	Provider A	Provider B	Provider C	Provider D	Provider E	Provider F	Provider G	Provider H
Eligibility hub								
No additional fees					n/a	n/a		
Specialist implementation team								
Pre-enrolment communications								
Will create contribution files								
Modular design								
Links to NEST/other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

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**

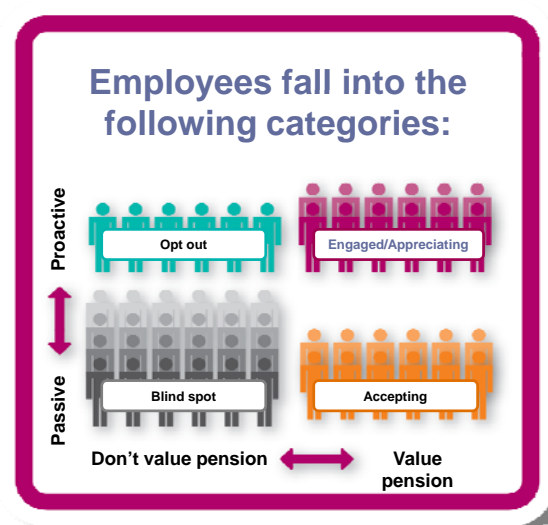
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## Beware the blind spot



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## Vox pops 1: Auto-enrolment: Gut reactions



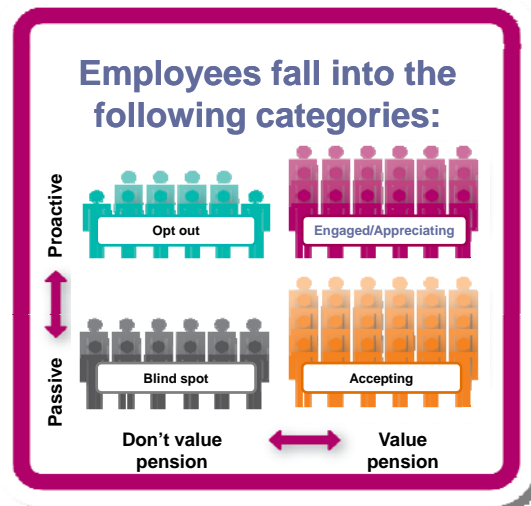
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## Learning points #1

- 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

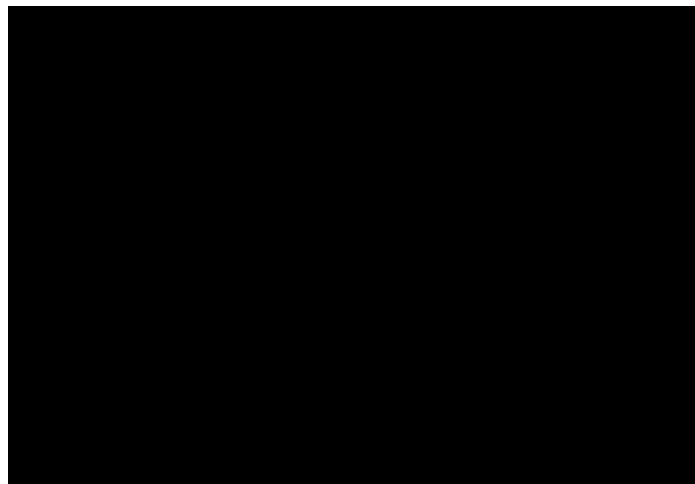
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## Shrinking the blind spot



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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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## Now the real work begins...

- The Pensions Regulator is increasing DC focus

### Delivering good member outcomes at retirement

Principle 1: Essential characteristics	Principle 2: Establishing governance	Principle 3: People	Principle 4: Ongoing governance and monitoring	Principle 5: Administration	Principle 6: Communications to members
Schemes are designed to be durable, fair and deliver good outcomes for members.	A comprehensive scheme governance framework is established at set-up, with clear accountabilities and responsibilities agreed and made transparent.	Those who are accountable for scheme decisions and activity understand their duties and are fit and proper to carry them out.	Schemes benefit from effective governance and monitoring through their full lifecycle.	Schemes are well-administered with timely, accurate and comprehensive processes and records.	Communication to members is designed and delivered to ensure members are able to make informed decisions about their retirement savings.

The Pensions  
Regulator

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## Questions or comments?

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

