



Consultants  
& Actuaries

*The workplace pensions experts*

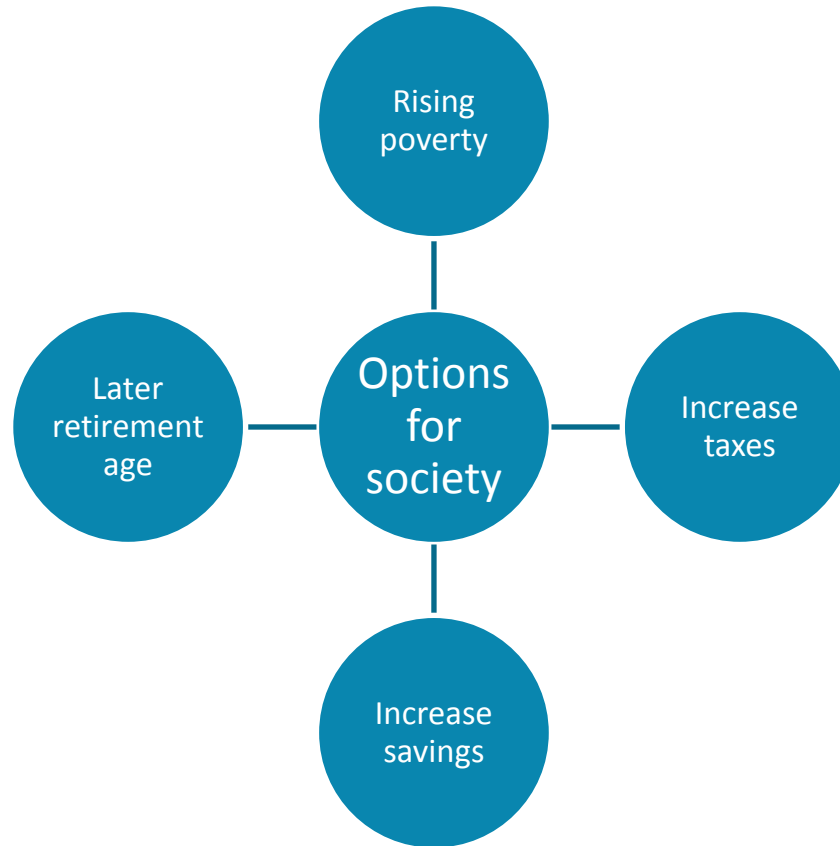
# Automatic Enrolment and Compulsory Pension Contributions



# The “basics” agenda

- Background
- The new landscape
- Communications
- Record keeping
- Staging date

# A history lesson



# Recommended reforms



# The recent history



- Less than 2 million in defined benefit schemes
- More than 10 million not saving enough
- Pensions Act 2011
- A new landscape has almost arrived



# The new landscape



- Automatic enrolment
- Compulsory employer contributions
- Pensions Regulator registration
- Information requirements





# The headlines

- Employees to be automatically enrolled into a pension scheme
- Minimum employer contributions of 1% rising to 3% from October 2017
- Minimum total contributions of 2% rising to 8% from October 2017
- The largest employers must comply from October 2012...

.....lots of detail and potential issues



# What is auto-enrolment

- Enrolment in a scheme of a minimum standard – a Qualifying Scheme
  - Staging date
  - Employment date
- Optional 3 month waiting periods
- Deferral to October 2016 for DB schemes

# Who do I need to enrol?



Age	Under age 16	Age 16 to 21	22 to State Pension Age	Over State Pension Age but under age 75	Age 75 and over
Earnings					
Below £5,715	No entitlement	Can opt-in but has no right to employer contributions			No entitlement
Between £5,715 and £7,475		Can opt-in and has right to employer contributions			
Over £7,475		Can opt-in and has right to employer contributions	Has to be auto-enrolled	Can opt-in and has right to employer contributions	

# Some terminology



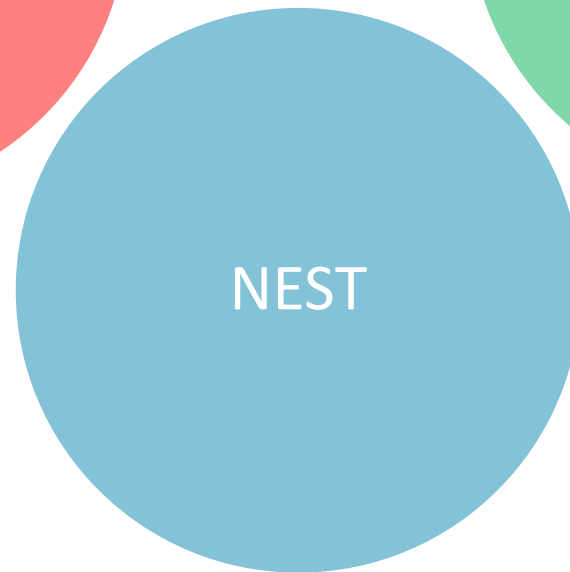
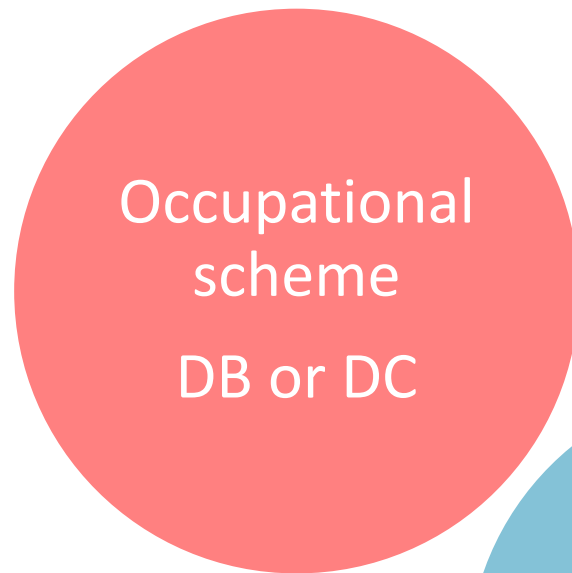
	Age	Under age 16	Age 16 to 21	22 to State Pension Age	Over State Pension Age but under age 75	Age 75 and over
Earnings						
Below £5,715		No entitlement	Entitled worker			No entitlement
Between £5,715 and £7,475			Non-eligible jobholder			
Over £7,475			Non-eligible jobholder	Eligible jobholder	Non-eligible jobholder	

# Can a member opt-out?

- Yes, but...
- ...repeat process every 3 years..
  - within 3 months of the 3 year anniversary of staging date
  - Within 3 months of the anniversary of last auto-enrolment



# What is a qualifying scheme?





# Qualifying DB scheme

- Contracted out of S2P
- Contracted in –
  - 90+% of members
  - 1/120<sup>th</sup> average qualifying earnings
  - Payable from age 65
  - Benefits increase in line with at CPI with a maximum of 2.5%
- Qualifying earnings = gross “band” earnings

# Qualifying DC scheme



- Compulsory contributions to be phased in over three periods:

<i>Period</i>	<i>Minimum Total Contributions</i>	<i>Minimum Employer Contributions</i>
<b>1 July 2012 to 30 September 2016</b>	2.0%	1.0%
<b>1 October 2016 to 30 September 2017</b>	5.0%	2.0%
<b>1 October 2017 onwards</b>	8.0%	3.0%

- If member contributes then tax relief is counted

# Compulsory Contributions



- Alternative contribution bases:
  - 9% of pensionable earnings  
(including up to 5% from employees)  
pensionable earnings exclude overtime, bonuses, etc;
  - 8% of pensionable earnings  
(including up to 5% from employees)  
pensionable earnings - not less than 85% of earnings
  - 7% of pensionable earnings  
(including up to 4% from employees)  
pensionable earnings are 100% of total earnings.
- Will also be phased in over transitional periods



# Qualifying hybrid scheme

- Meet DB benefit test

AND

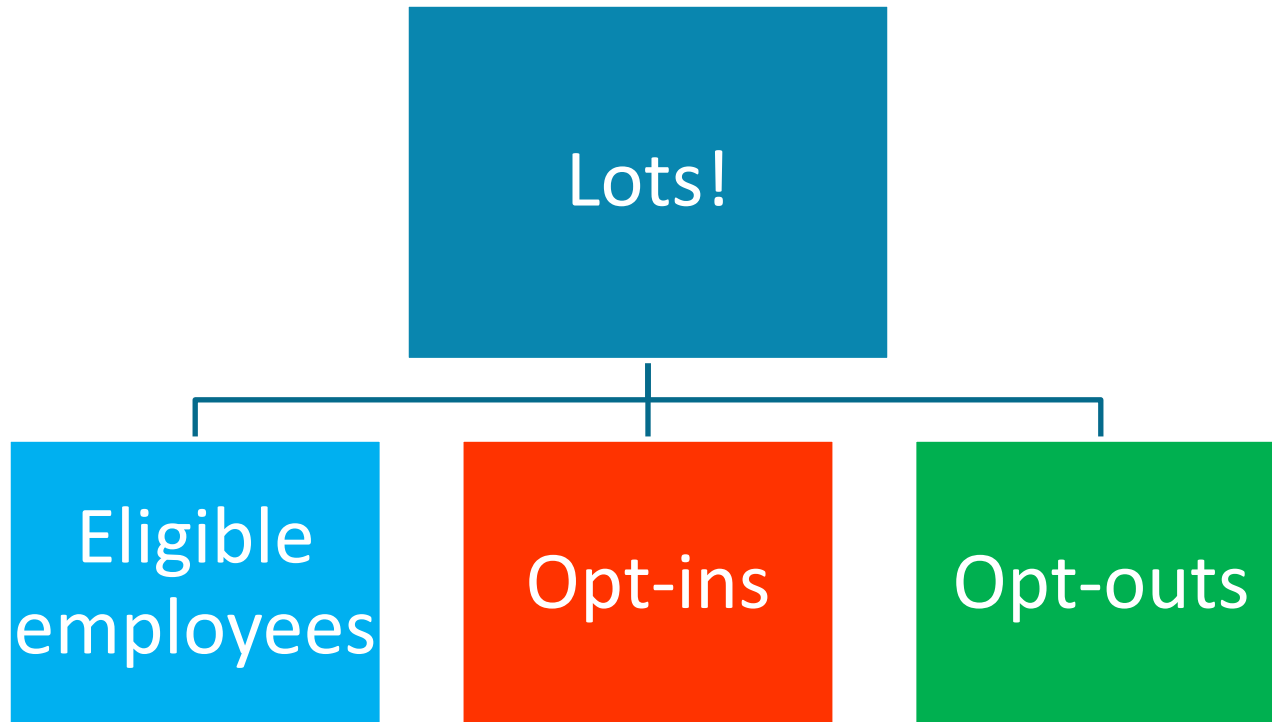
- Meet DC contribution test

# Further requirements



- No application form required
- No signature required
- No requirement to nominate fund choice

# Communications



# Record keeping



Scheme  
details

Personnel  
records

Pay and  
contribution  
details

Evidence for  
Pensions  
Regulator

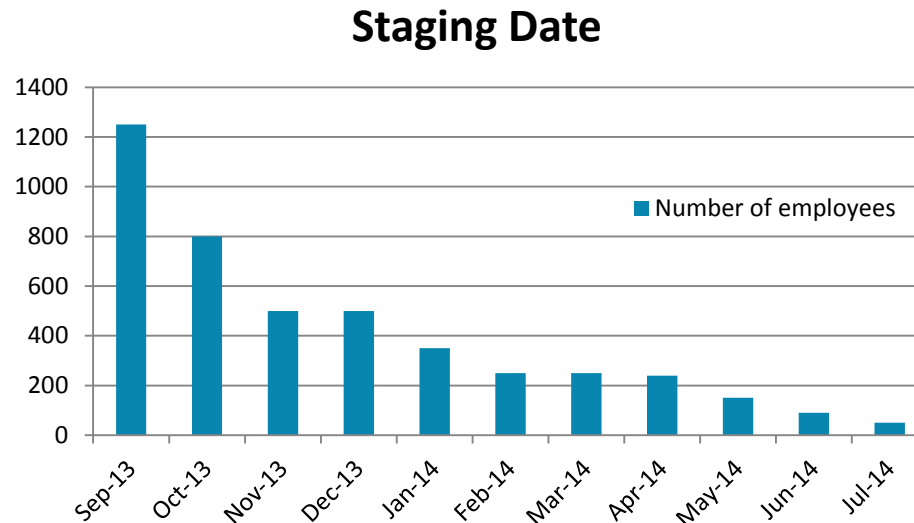


# A reminder

- Enrolment in a scheme of a minimum standard – a Qualifying Scheme
  - Staging date
  - Employment date
- Optional 3 month waiting periods
- Deferral to 2016 for DB schemes

# When do I have to do this by?

- Largest to start by 1 October 2012



- Less than 50 - March 2014 to Feb 2016
  - PAYE reference at 1 April 2012 dictates

# More details



[www.bbs-actuaries.co.uk](http://www.bbs-actuaries.co.uk)

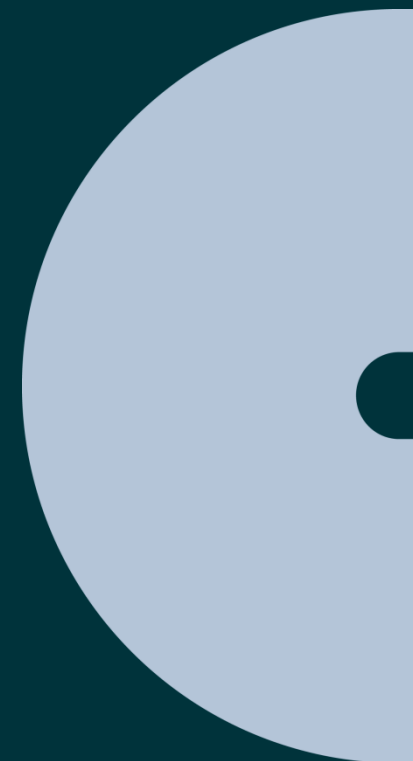
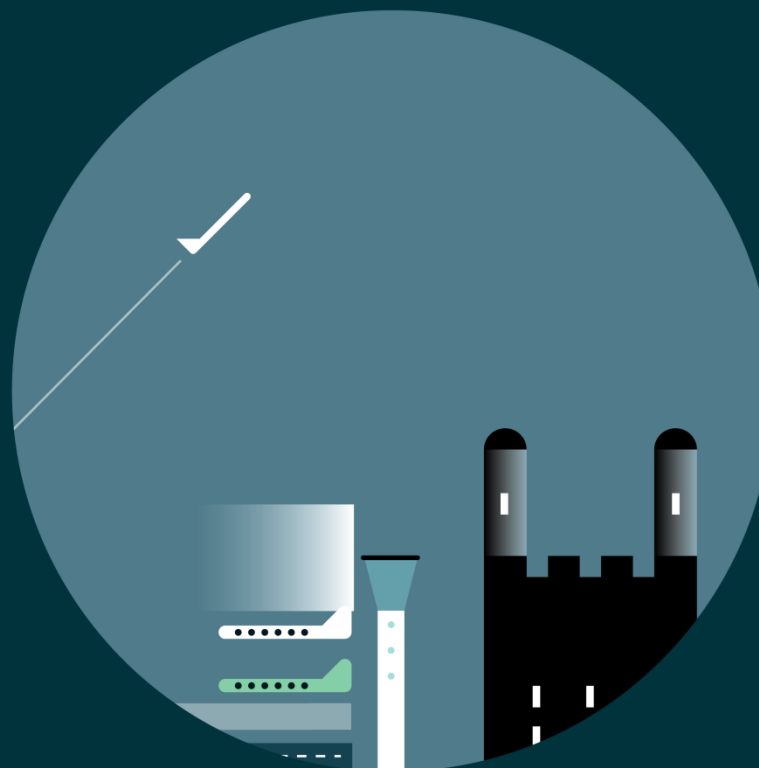


# Questions

# Auto-enrolment – Some legal issues

22 November 2011

Jonathan Hazlett



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# Outline

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- Assessing your workforce
- Using your existing scheme for auto-enrolment
- Anti-inducement behaviour
- Sanctions

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# Assessing your workforce

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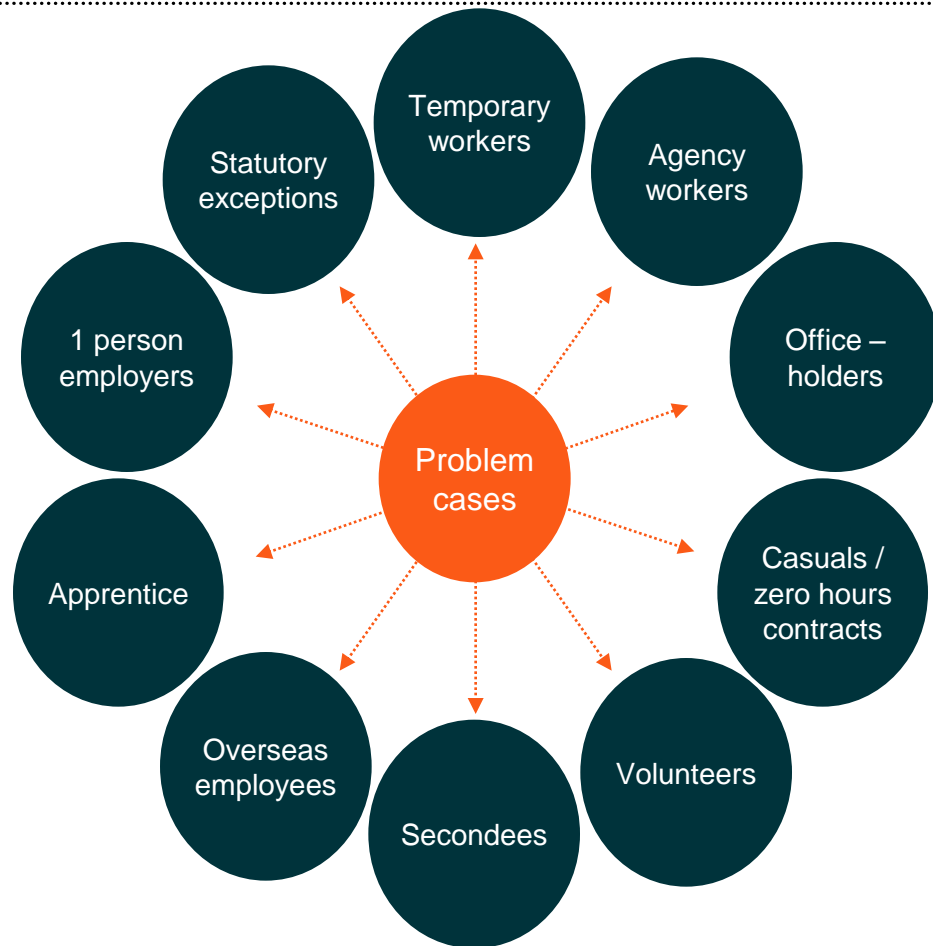
- Is an individual a worker?
- If so, what category of worker?
  - Eligible job-holder = automatically enrol and receive employer contribution
  - Non-eligible job-holder = right to opt in and receive employer contribution
  - Entitled worker = right to opt in without employer contribution

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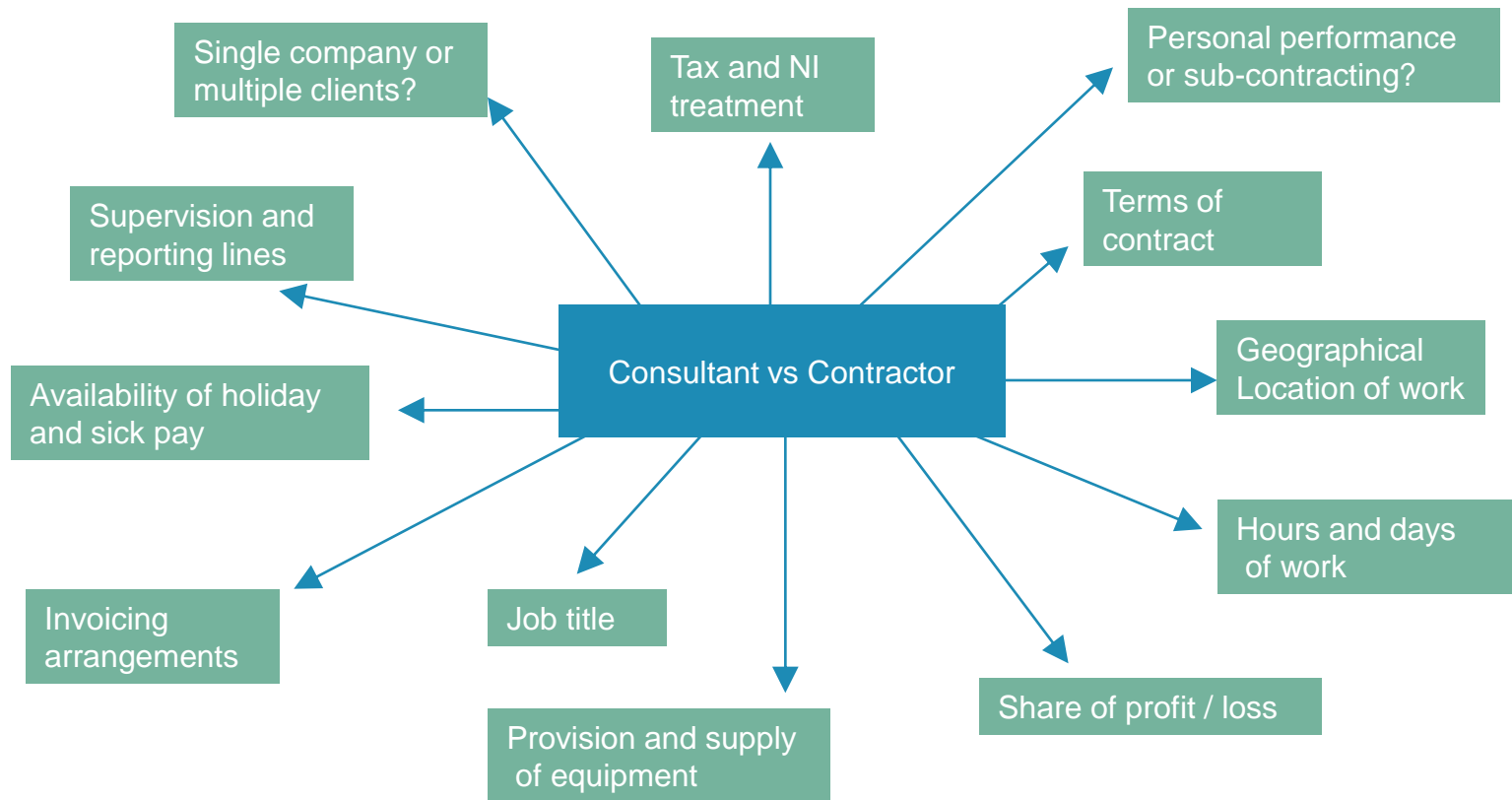
# Who is a worker? (1)

- 
- Works under a contract of employment
  - Contract to perform work or services personally

# Who is a worker? (2) – Problem cases



# Who is a worker? (3) – consultant vs contractor



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# Using your existing scheme

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- Qualifying scheme
- Automatic-enrolment criteria

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# What is a qualifying scheme?

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- Tax registered
  - Occupational or personal pension scheme
  - Minimum quality requirements
    - Defined benefit
    - Defined contribution
      - Trust-based
      - Contract-based e.g. GPP or stakeholder
-

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# Automatic enrolment criteria

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- No barrier to entry
- Rules of the Scheme must not prevent automatic enrolment, opt-in or re-enrolment
- Must not require a member to make a choice

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# Defined Benefit – minimum quality requirements

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- Contracted out – copy of contracting out certificate
  - Contracted in – test scheme standard
    - Pension for life
    - Payable at age 65 (rising with state pension age)
    - $1/120 \times$  average qualifying earnings in last 3 years  $\times$  pensionable service
    - 40 years' maximum pensionable service
    - Minimum rates of revaluation and indexation
  - Employer or scheme actuary certification
  - Career average / cash balance schemes
-

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# Defined Benefit – eligibility and admission

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- Member consent?
- Age limits
- Waiting periods
- Application forms
- Provision of information / medical evidence
- 4 year transitional period for existing job-holders if they remain eligible to join

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## Defined contribution – minimum quality requirements (1)

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- 8% of "qualifying earnings" (including tax relief)
- Minimum employer contribution of 3% of "qualifying earnings"
- "Qualifying earnings" = earnings between £5,035 and £33,540
- Includes commission, bonuses, overtime, statutory sick pay, statutory maternity, paternity and adoption pay

# Defined contribution – minimum quality requirements (2)

- Transitional period

<b>Year</b>	<b>Employer contribution</b>	<b>Employee contribution (including tax relief)</b>
Employer's staging date to 30 September 2016	1%	1%
1 October 2016 to 30 September 2017	2%	3%
1 October 2017 onwards	3%	5%

## Defined contribution – minimum quality requirements (3)

- Contributions unlikely to be based on "qualifying earnings" but basic pay and on all pay received
- Self-certification

<b>Total contribution (% of pensionable pay)</b>	<b>Employer contribution</b>	<b>Special conditions</b>
9	4	Pensionable pay or basic salary
8	3	85% of total pay bill is pensionable
7	3	All pay must be pensionable

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# Defined contribution – eligibility and admission

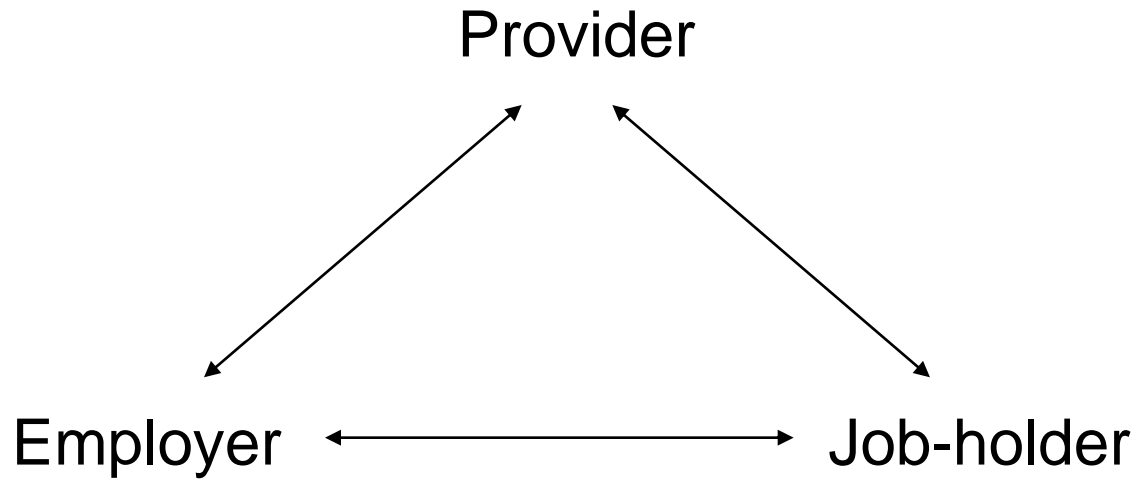
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- Member consent?
- Age limits
- Waiting periods
- Application forms
- Provision of information / medical evidence
- Investment choice
- Default fund – DWP Guidance

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# Personal pension schemes - agreements

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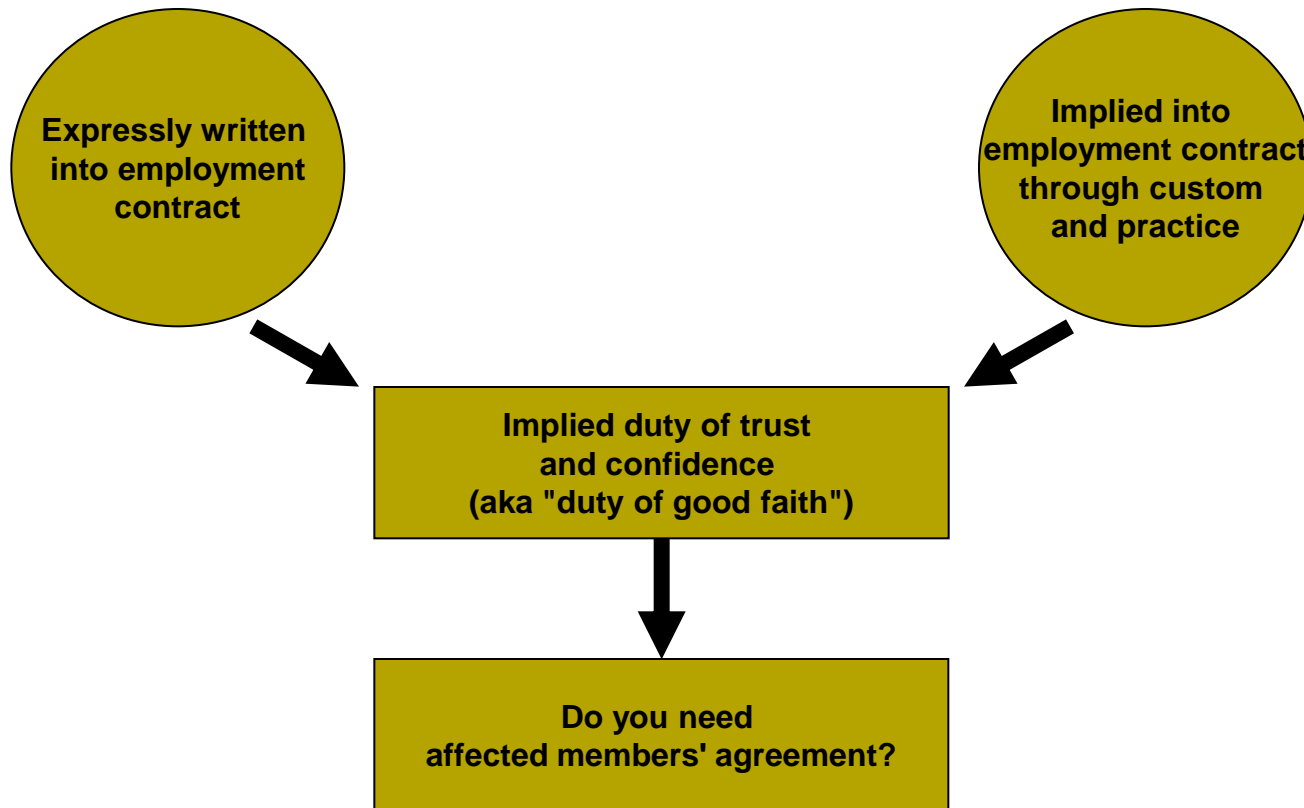
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# Issues with employment contracts (1)

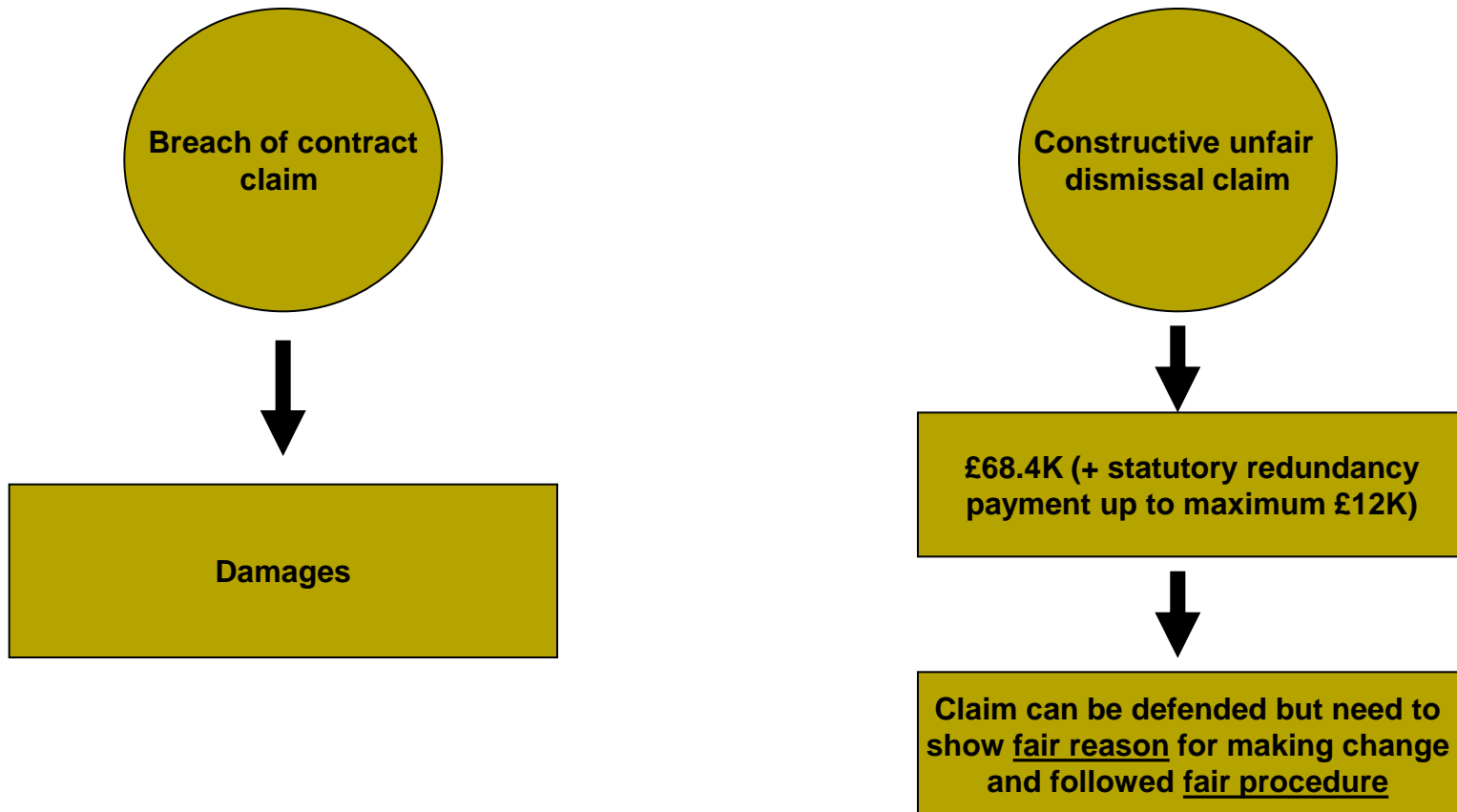
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- Do employees have an existing contractual right to a certain level contributions?
- Obtain legal advice
- Provide legal adviser with following:
  - Offer letter
  - Contract of employment / standard terms and conditions
  - Employee handbooks
  - Scheme explanatory booklet
  - Recognition agreement with any independent trade union

# Issues with employment contracts (2)



# Issues with employment contracts (3)



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# Issues with employment contracts (4)

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- Changes to levels of employer contributions = listed change
- Information and consultation
- At least 60 calendar days (possibly 90 if could lead to termination of contract)
- Affected members and their representatives
- Failure to consult = civil penalty

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# Other benefit design issues

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- Salary sacrifice / salary exchange
- Flexible benefit arrangements
- High earners – fixed protection and enhanced protection

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# Anti-inducement behaviour (1)

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- Action to cease active membership of a qualifying pension scheme
- Inducements
- Prohibited recruitment activity
- Note - applies to all employers from 1 October 2012 (not staging date)

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# Anti-inducement behaviour (2)

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- What is an inducement?
- Any action take by employer the **sole or main purpose** of which is to attempt to induce a jobholder to opt out of or cease active membership of a pension scheme
- Action is the breach

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# Anti-inducement behaviour (3)

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## Avoid:

Extension or renewal of short term contracts

One-off payment

Higher salary levels

Promotion

Redundancy / dismissal

## Exercise caution:

Enhanced transfer values

Flexible benefit packages

Financial information / advice

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# Sanctions

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- tPR additional statutory objective to maximise compliance with auto-enrolment
  - Pre-staging date communication
  - Registration with tPR
  - Notices and penalties for non-compliance
    - Notices
      - Compliance notice
      - Third party compliance notice
      - Unpaid contributions notice
    - Penalties
      - Fixed penalty notice - £400
      - Escalating penalty notice - £50 to £10,000 per day
  - Criminal offence for wilful breach
-



**Questions**

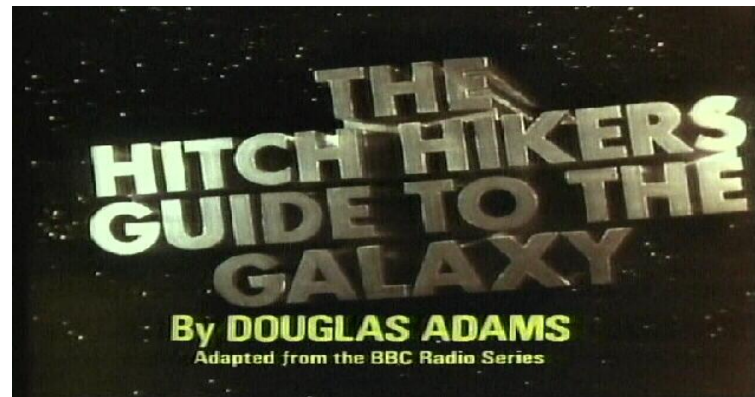


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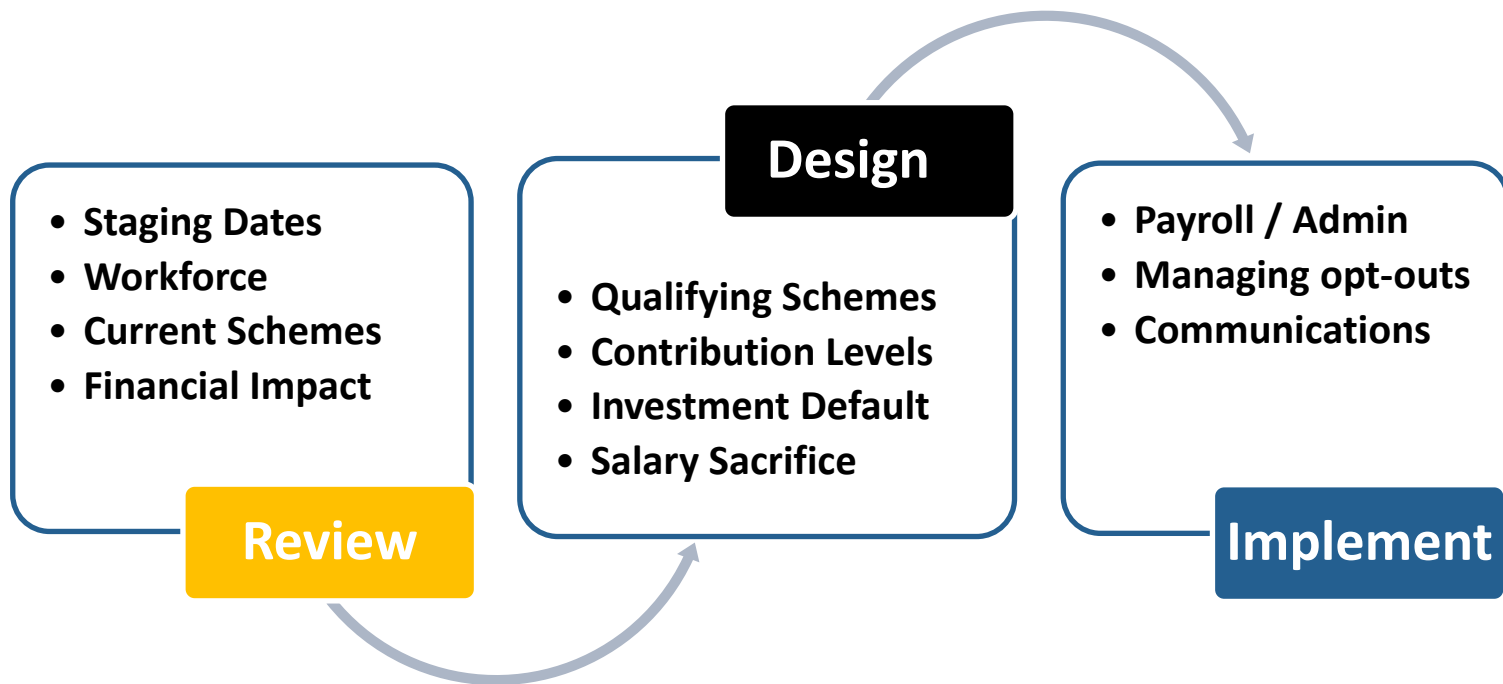
*The workplace pensions experts*

# Implementing Auto-enrolment Some Practical Issues

**“I love deadlines. I like the whooshing sound they make as they fly by.”**



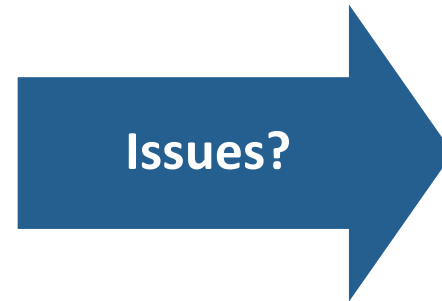
# Auto-enrolment Process



# Review – Staging Dates



- October 2012 – February 2016
- 39 Employer groups
- Dependent on size of PAYE scheme on 1 April 2012
- Large Employers – early?
- Others - bring forward to align with pay dates?



- Multi PAYE schemes / Employers
  - One payroll?
  - Largest payroll?
  - Multiple Staging Dates?
- Timing
  - Financial year?
  - Scheme Year?
  - Remember deferred periods

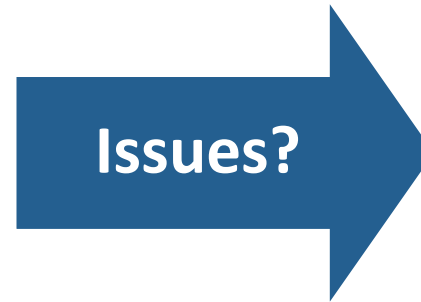
**Must be ready to comply from Staging Date**



# Review – Workforce



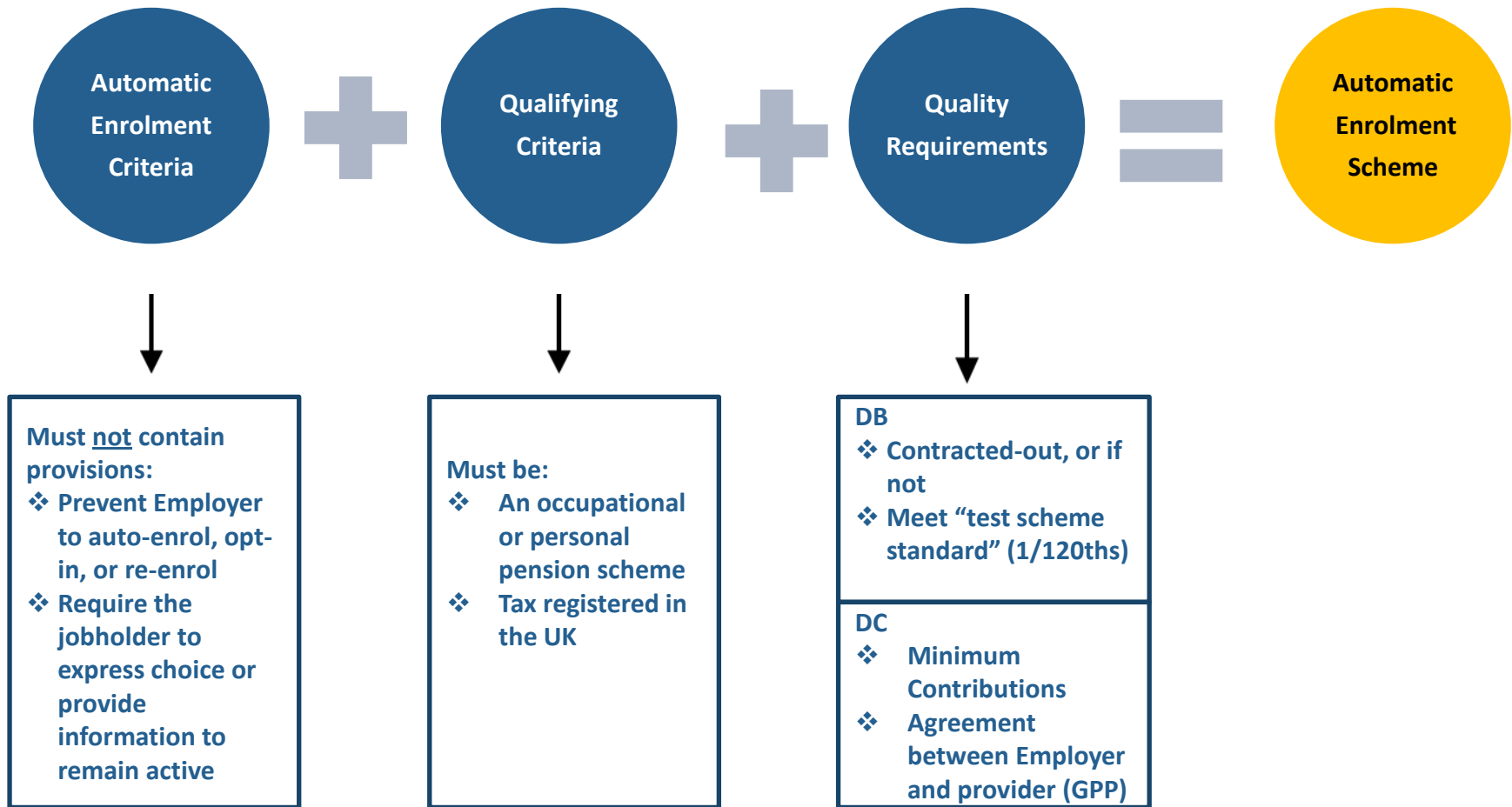
- **Eligible Jobholders**
- **Non-Eligible Jobholders**
- **Entitled Workers**
- **Excluded Workers**



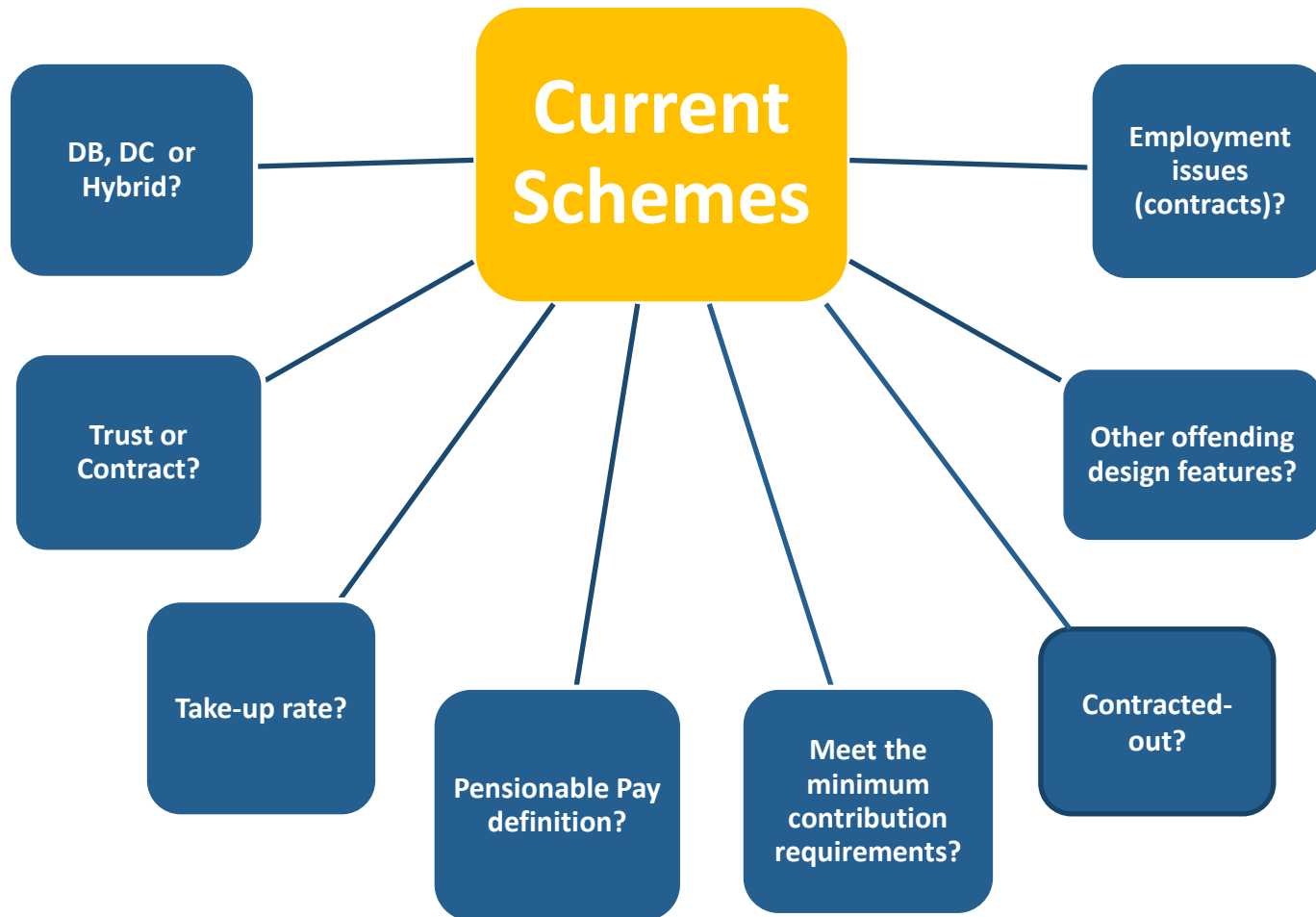
- **Examine contracts carefully**
- **Track ages and earnings at all times**
- **Office-holders not workers – NEDs**
- **Care needed**
  - Agency workers
  - Volunteers
  - Consultants / self-employed
  - Irregular working hours
  - Non-UK employees
  - Nannies / Carers!

**It may not be obvious – legal advice needed!**

# Review – Automatic Enrolment Scheme



# Review – Current Schemes

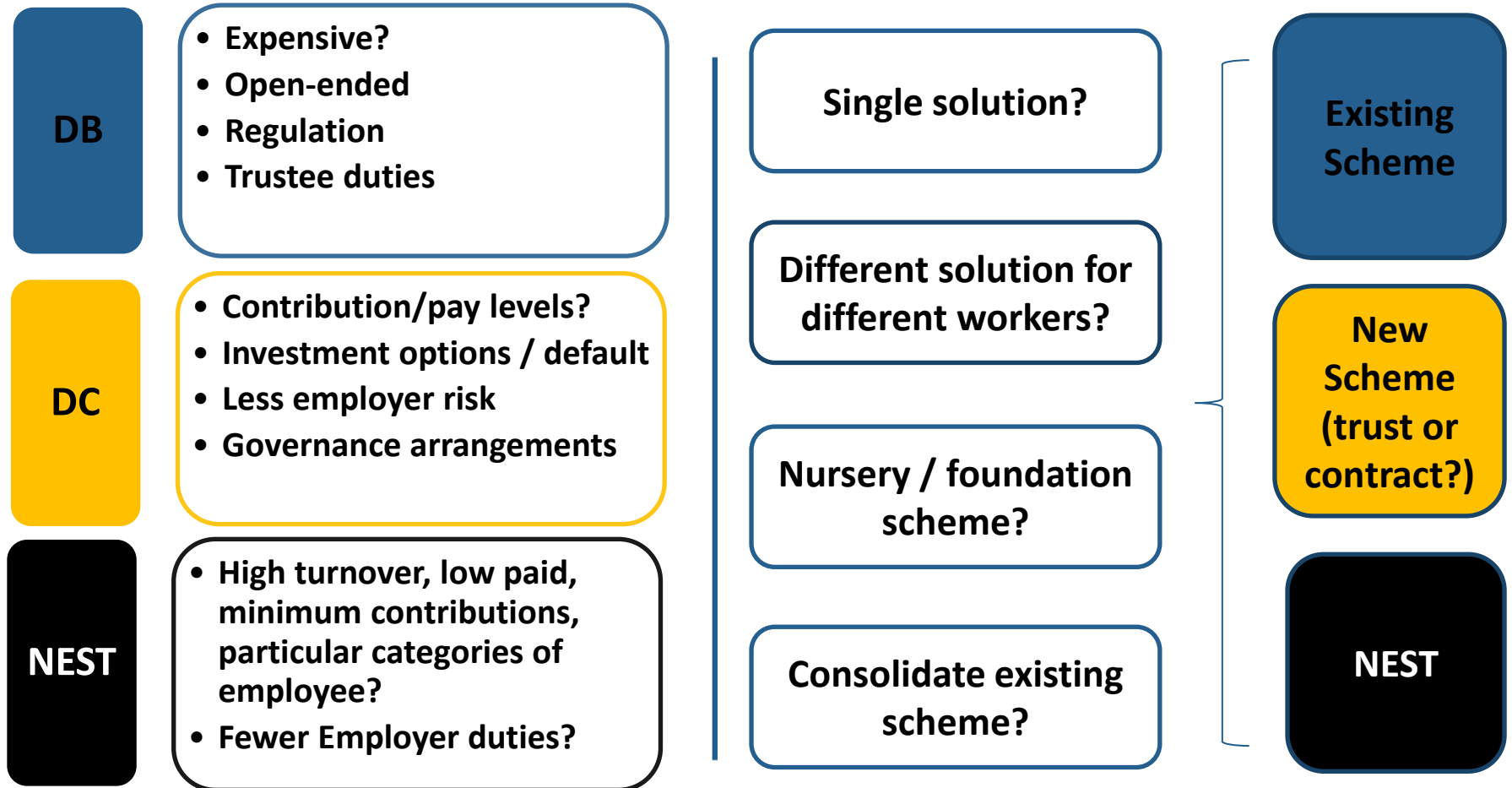




# Review – Financial Impact

- Transfer Cost (contributions) and Economic Cost (compliance)
- Scenario test impact of alternative contribution bases
  - % opt-outs / opt-ins
  - Earnings definitions – Band earnings or Pensionable Pay?
  - Minimum contributions or scheme-specific?
  - Remember NICs
- Payroll costs, including software
- Management / administration time

# Design –Scheme Options





# Design – Contribution Levels

- Minimum, scheme-specific, or certified (first £) scheme?
- Pay definition?
- Phased or steady state?
- Level-up or down?
- Cross-subsidy from pay / other benefit provision?
- Review against the minimum requirements - continuous



# Design – Default Investment Strategy

- AE requires DC schemes to have a default investment strategy
  - Most members will end up in it!**
- Default option should
  - Have a high-level objective setting out aims
  - Reflect the characteristics and needs of workers
  - Reflect the appropriate balance between risk and reward
  - Have clear charges reflecting risk/reward balance
- Clearly define and allocate responsibilities for default option
- Regular review and clear communication



# Design – Salary Sacrifice / Flex

- Salary sacrifice very common in practice, particularly with DC
- But
  - Salary Sacrifice is **Voluntary**
  - Auto-enrolment is **Involuntary**
- Options
  - Side by side joining
  - Contract of employment change
  - Optional salary sacrifice post joining
- An AE Scheme can still be part of a Flex package

# Implement – Payroll and Administration



- Successful implementation reliant on “middleware”
- Seamless processing, and not volume, likely to be key

## In-house?

- Flexibility and control, but do you have the capability?

## TPA?

- Provider-agnostic

## Provider?

- Tied to Provider’s products / services
- Potentially less flexibility

Ultimately it is the employer’s problem but is this your day job!

Will the market be ready for 2012? If not, how will you cope?



# Implement – Managing Opt-outs

- Jobholders have right to opt-out
- Opt-out Notice within opt-out period
- Opt-out period is 1 month, but care needed on when month starts and finishes!
- Employers can only accept valid Opt-out Notice, although two week extension
- On receipt, stop contributions and refund
- Opt-out Notice from Scheme not Employer, unless so delegated

**Arrange opt-out period to end before contributions submitted if possible.**



# Implement – Communications

- Employer duty to provide the right information, to the right individual, at the right time
- Can be delegated but remains employer responsibility
- In writing - not signposting to internet or workplace poster
  - Employee groups - details of auto-enrolment, the scheme, right to opt-out, opt-in, join, deferral of auto-enrolment, where to find further info... etc
  - Trustees / Managers – Details of employee
- Timescales – various, typically 1 month of AE date

**Understand the requirements and establish processes**



# Questions



# National Employment Savings Trust

Paul Stovold  
Relationship Manager

22<sup>nd</sup> November 2011

# Who does what?

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**DWP** Department for  
Work and Pensions

Scope of automatic enrolment

Staging and phasing timetable

The Pensions  
Regulator

Compliance with employer duties



A new, trust-based pension scheme for low to moderate earners

Public service obligation to accept all employers

# NEST Corporation

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Chair - Lawrence Churchill



Trustee Members



Tom  
Boardman



Laurie  
Edmans



Iraj  
Amiri



Chris  
Hitchen



Sharon  
Darcy



Sue  
Slipman



Julius  
Pursaill

# Designed for the target market

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Clear  
communication

Online

Travels with  
the member

Tailored  
investment  
approach

Help with  
retirement  
income

Low charges

Always focused on our members

# Who are TCS?

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## TCS's international presence

- IT services, business solutions and outsourcing
- International -137 offices in 42 countries - 88 delivery centres in 18 countries
- 160,000 employees globally
- More than 60 sites in the UK

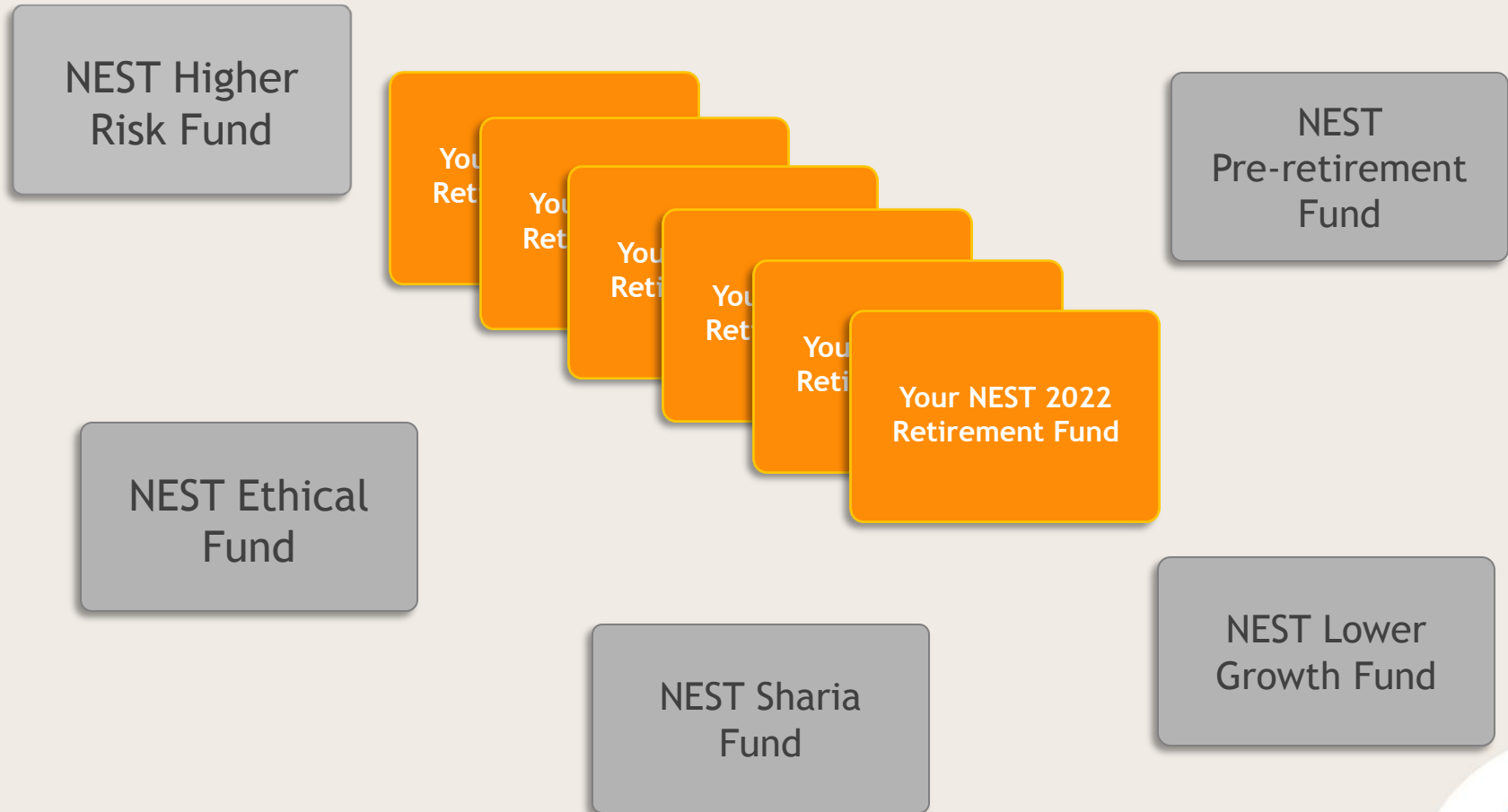


## TCS and Diligenta - experienced partners

- TCS - More than 30 years experience in UK insurance sector with 90 insurance clients including the top 7 UK insurers (including AXA Group, Phoenix Group, Aviva, L&G, Skandia)
- Diligenta - FSA regulated service provider to UK life and pensions market with 5 million policies under management and 2000 staff in UK

# Proposition to meet all our members' needs

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# What they do

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Fund mandates	Managers
Pooled Passive Global Equity	UBS Global Asset Management
Pooled Passive Fixed Interest Gilts	State Street Global Advisors UK
Pooled Passive UK Index-Linked Gilts	State Street Global Advisors UK
Low Risk Cash	BlackRock UK Institutional Business
Diversified Beta Fund	BlackRock UK Institutional Business

# What they do (cont)

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Fund mandates	Managers
Sharia Fund	HSBC Global Asset Management
Ethical Fund	F&C Asset Management

# NEST Retirement Date Funds - funds for everyone

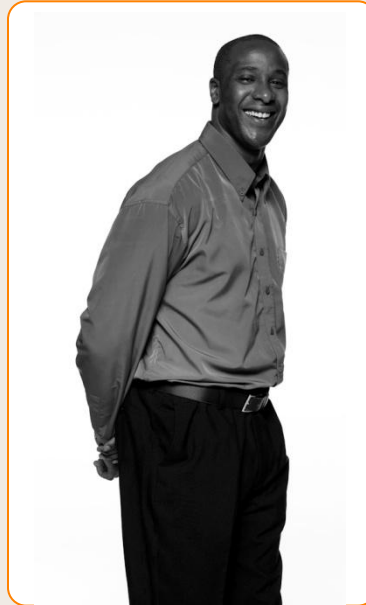
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- A new approach
- Age-based investment funds to meet members' needs

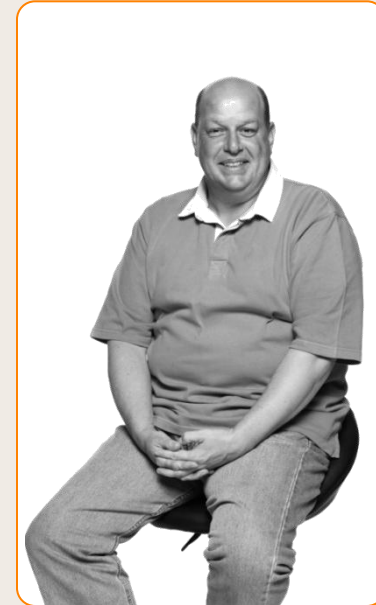
Your NEST 2058 Fund



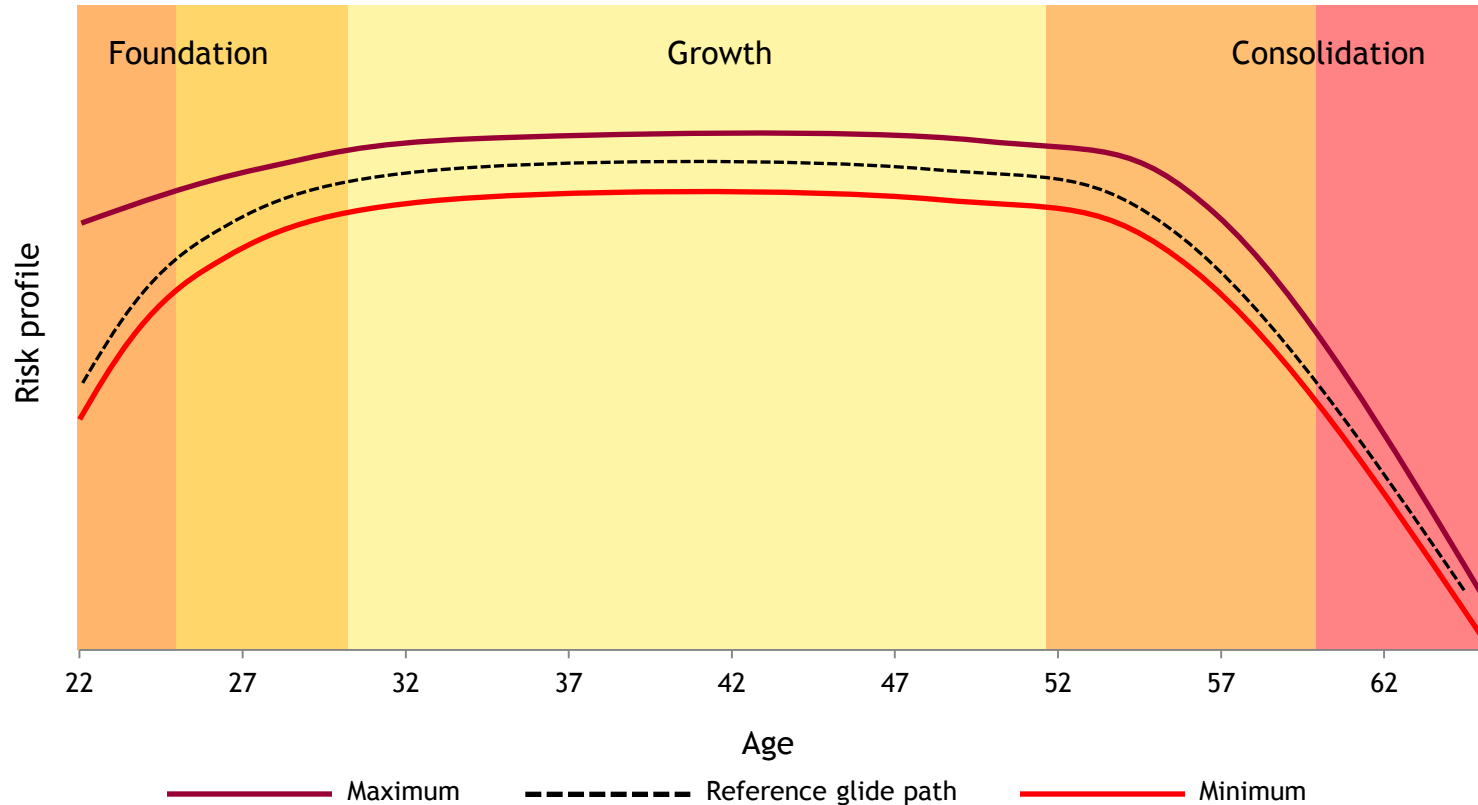
Your NEST 2039 Fund



Your NEST 2022 Fund



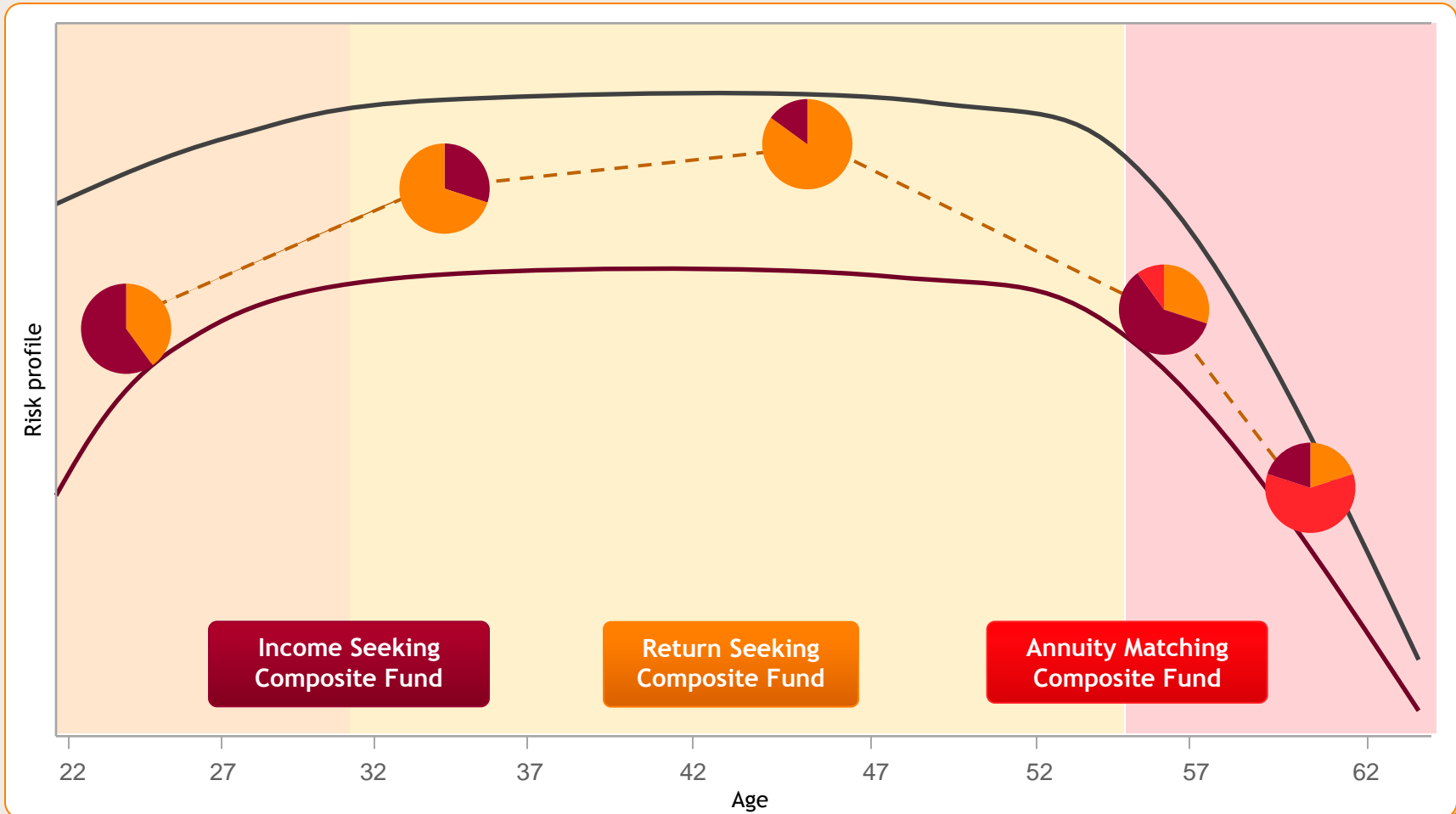
# Three phases of lifecycle



# Lifecycle of 2058 Retirement Fund



2058

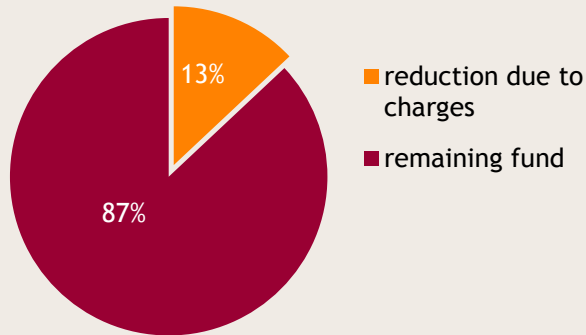


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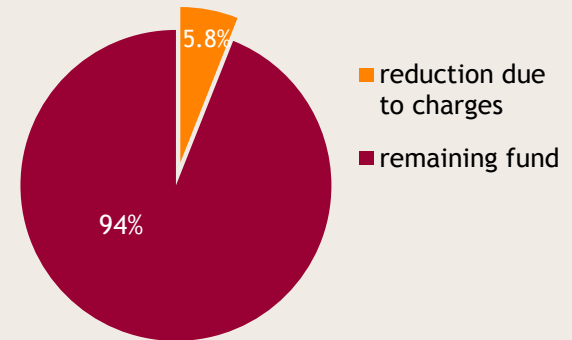


# Charges - How will NEST compare?

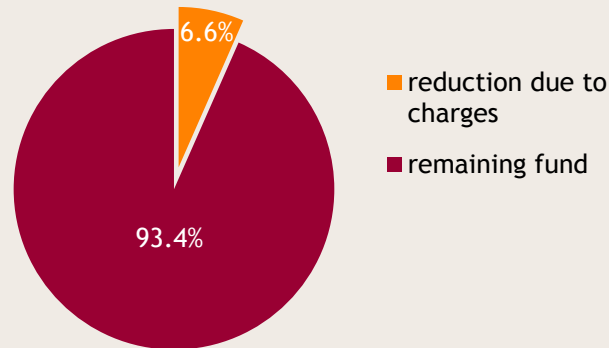
Reduction in pot due to the charges at the stakeholder cap



Reduction in pot due to charges at the NEST level

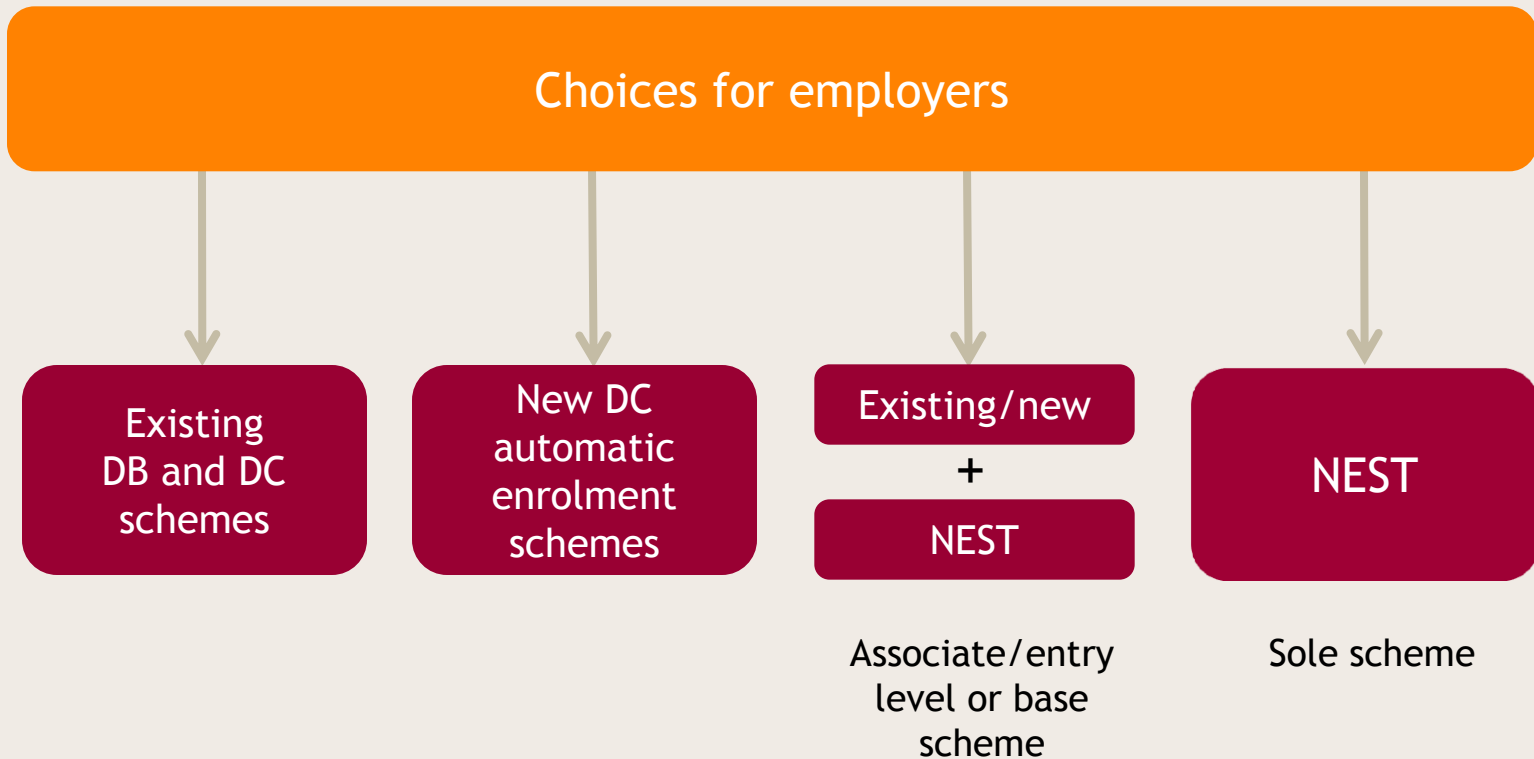


Reduction in pot due to charges in an indicative workplace scheme at 0.5% AMC



# 2012 - employer options

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# How NEST can be used

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## Sole scheme

- offered to all workers

## Associate scheme

- for a category of employer to sit alongside existing scheme

## Entry level scheme

- where your existing scheme has a waiting period

## Base scheme

- to which minimum contributions are made for all workers, with another scheme on top

# Contact us

The screenshot shows the NEST website homepage. At the top, there is a navigation bar with the NEST logo (National Employment Savings Trust) and a search bar. Below the navigation bar, there are several tabs: 'What is NEST?', 'NEST for savers', 'NEST for employers', 'NEST for advisers', 'About us', and 'My account'. The main content area features a 'Welcome to NEST' message with a photo of a man and a description of the NEST scheme. Below this, there are three boxes: 'Saving In NEST' (NEST for savers), 'Using NEST' (NEST for employers), and 'Recommending NEST' (NEST for advisers). Each box has a brief description and a button to learn more.

A woman with blonde hair, wearing a black and white striped shirt, is smiling. The text 'Key facts and myth buster' is written below her. The NEST logo is in the bottom right corner.

**Workplace pension reform**  
**15**  
**key facts**

1. The Pensions Act 2007 reformed State Pensions and introduced arrangements to increase the State Pension age.
2. The Pensions Act 2008 reformed workplace pension provision. The reforms aim to encourage saving for retirement.
3. Automatic enrolment is being designed to actively involve people in saving. It aims to make it easy for individuals to save for retirement.
4. Workplace pension reform means that starting from 2012 employers will have to automatically enrol all eligible jobholders into a pension scheme that meets or exceeds certain legal standards. These standards include the minimum that employers have to contribute to a worker's retirement pot.
5. Other workers can also have to be enrolled. Depending on their earnings, their employer may also have to make a contribution.
6. The requirements on employers will be phased in and increase gradually to the minimum level to help employers and jobholders adjust.
7. The total minimum contribution to a worker's retirement pot will be a per cent of their qualifying earnings. Of this 8 per cent, the employer will have to contribute a minimum of 3 per cent. The rest will be made up of tax relief and the jobholder's contribution.
8. The employer duties and how they are implemented are specified by legislation. The reforms will be introduced in stages from 2012 with the largest employers affected first.
9. After the new employer duties start to be introduced, workers will have the right to opt out of the pension scheme they have been automatically enrolled into within one month of this taking place, if they choose to opt out in this way they will receive a refund of their contributions.
10. The Department for Work and Pensions (DWP) will implement the planned reforms and NEST Corporation will work alongside DWP on matters relating to NEST. The Pensions Regulator (TR) will regulate NEST Corporation and the scheme ensuring that it continues to meet its obligations.

This is the total of gross annual savings on which contributions are calculated. This is currently between £10,000 and £12,500 a year in November 2008 terms. These figures may not be in the Pensions Act 2008 and may be reviewed annually by the Secretary of State. Qualifying earnings include a worker's usual, regular earnings (including commission, as well as statutory sick, maternity payments or adoption pay)

[www.nestpensions.org.uk](http://www.nestpensions.org.uk)



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The financial information in these slides is for general information only. It does not constitute financial or legal advice.

