CFG INSPIRING FINANCIAL LEADERSHIP

# Auto-enrolment for charities: a how-to guide


Produced in collaboration with

FosterDenovo

premier see change

sh STEPHENSON HARWOOD

## November 2013



The guide has been written and produced by the Charity Finance Group, in collaboration with Foster Denovo, Premier Pensions and Stephenson Harwood.

Special thanks for project managing the guide and survey and for their technical assistance go to:

- Charity Finance Group: Sarah Woodfield, Jane Tully
- Premier Pensions: Rob Cooper, Martin Thompson
- Foster Denovo: Ian Bird, Marie-Ann Abraham
- Stephenson Harwood: Philip Goodchild, Naeem Noor

Other contributors and CFG member organisations whose input is much appreciated include The Pensions Regulator, NAPF, Royal Mencap Society, RSPB, National Autistic Society, Barnardo's, NSPCC, Royal Opera House.

ISBN: 978-0-9567860-5-0
Charity Finance Directors Group is a registered charity no. 1054914 trading as Charity Finance Group.

## Foreword

The Government's initiative to get all workers saving is something we wholeheartedly welcome, and is ultimately a positive development for society. Charities, as employers to some 800,000 workers, will be keen to ensure they have fully complied with the legislation. However, we recognise that the burden of implementation and cost falls on employers, meaning it's essential to plan early and manage the process well.

Auto-enrolment is a huge undertaking, particularly for those with low pension take-up already where the additional cost and administration pose major challenges. Evidence from our conversations with charities that have already auto-enrolled, and from the Department for Work and Pensions research, shows that it is vital charities start thinking about auto-enrolment at least 9-12 months in advance. The lessons from some of the largest charities are clear; plan early and factor in cost; check with your current pension provider well in advance if planning to use them and anticipate low-opt out rates.

We at CFG have particular concerns about the capacity of small charities to comply, and the level of support that will be available to them at that point. We estimate that some 22,000 charities will have to comply in 2015 onward. The findings from our survey show a high level of confidence, with 63% of respondents due to auto-enrol at that point saying they are confident in their capacity to do so. Despite this optimism, we would urge charities and trustees to learn the lessons from those who have already trodden this path.

To support the sector we have launched this guide in collaboration with Foster Denovo, Premier Pensions and Stephenson Harwood. It signposts to the relevant advice from the Pensions Regulator and sets out the key steps employers need to take. We are hugely grateful to the CFG members who contributed their experiences through the survey, providing case studies in the guide, and delivering presentations at CFG events, and to the Pensions Regulator for inputting to the guide.

We hope that this practical guide will leave you with a clear outlook on your responsibilities and on how to implement this well.

Kind regards,

**Caron Bradshaw**

# Table of contents

## At auto-enrolment



## Post auto-enrolling

# Introduction

### 1. About auto-enrolment

In October 2012, the Government introduced new pension legislation in an attempt to address the national problem of increased life expectancy, coupled with insufficient retirement savings that have led to a UK pensions' crisis.

A key element of this legislation is auto-enrolment: all employers are obliged to auto-enrol their eligible employees into a workplace pension and contribute towards their retirement. All employers have been given a date by which they have to comply known as their 'staging date', starting with the largest employers first. At the time of print, November 2013, many of the UK's largest charities have just passed their 'staging date'.

The introduction of auto-enrolment shifts the onus of pension provision squarely upon the employer for the first time. For many charities, in an already challenging financial environment, this legislation places additional financial and administrative burdens upon them.

### 2. About this guide

This guide enables you to learn from charities that have staged before you.
It covers:

- Details of each step of the auto-enrolment process
- Top-tips for implementing auto-enrolment successfully within your own charity
- Case studies and experience from charities that have already gone through the process themselves
- Findings from CFG's survey on auto-enrolment

After working through this guide, you will be in a solid position to navigate your charity through the auto-enrolment landscape.

### 3. When does the charity sector have to comply?

Many of the largest charity employers have already complied, however the vast majority of charity employers will auto-enrol from 2015 onwards.

The figures in the table on the next page are drawn from the Charity Commission Register of Charities, covering registered charities in England and Wales only. Only charities with an income of over £500,000 have to report the number of paid employees. As it is difficult to employ more than 30 staff with income of less than £500,000 it should cover the majority of charity employers with more than 30 employees.

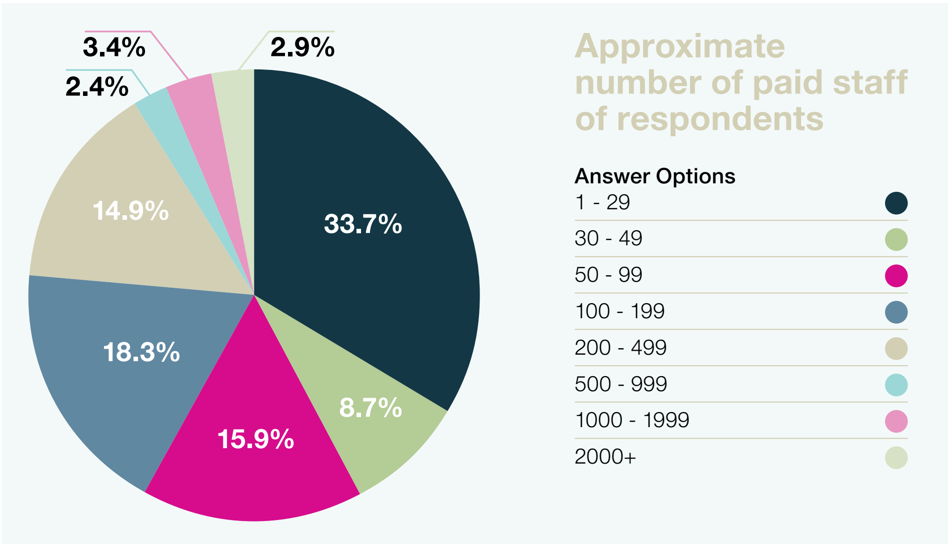
* The figure for charities with less than 30 employees is estimated based on NCVO's almanac data from 2010/11 and 2011/12.

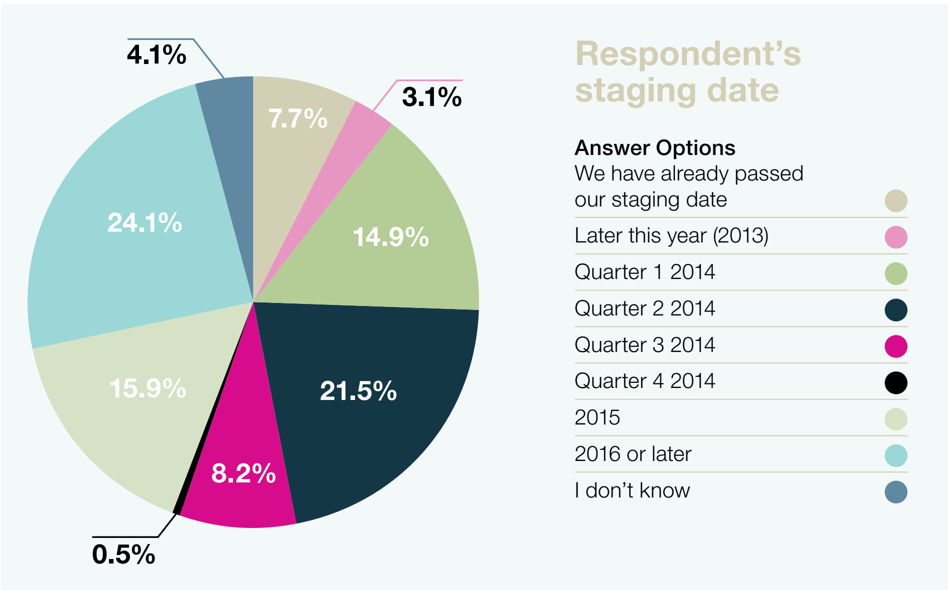
## Charity sector staging dates for auto-enrolment

| Staging date | Number of employees | Number of charities |
|---|---|---|
| **Already passed** | 500 + employees | 215 |
| **Early 2014** | 350-499 employees | 121 |
| **Early 2014** | 250-349 employees | 209 |
| **Mid 2014** | 160-249 employees | 400 |
| **End of 2014/early 2015** | 30-159 employees | 3238 |
| **2015 onwards** | Less than 30 employees | 22,000* |

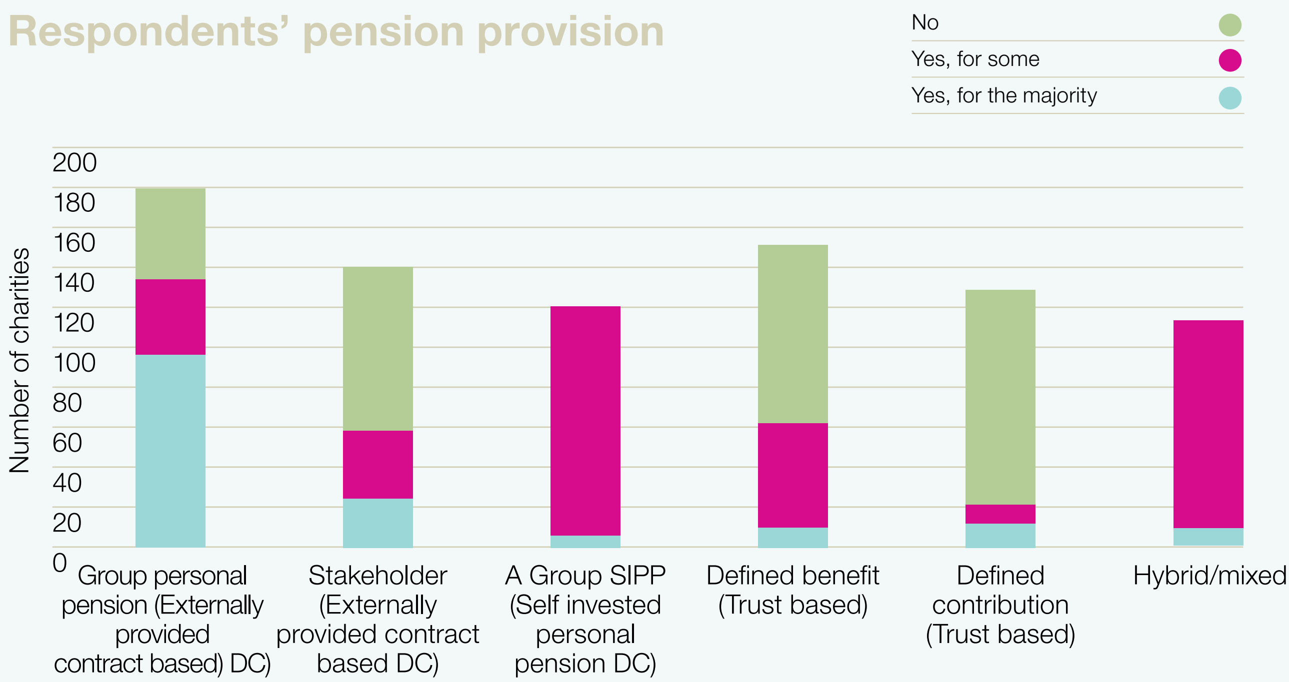
### 4. About the CFG auto-enrolment survey

In October 2013, 210 charities responded to an online survey carried out by CFG. Headline findings and comments from the survey are incorporated throughout this guide and our observations on the findings are summarised below.

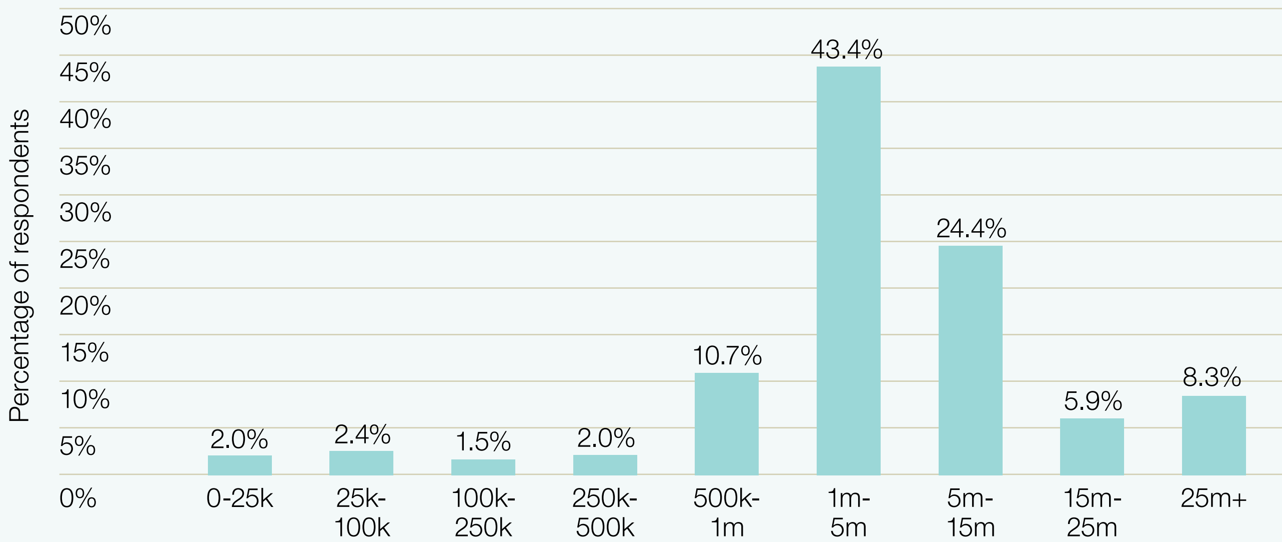


## Respondents' pension provision




## Income levels of respondents'




It is worth noting that respondents to our survey broadly represent larger charities (in terms of income 81% of respondents to our survey had an income over £1m and many of these have already auto-enrolled, or are due to shortly). The survey underrepresents the number of charities that will enrol at later dates (2015 and after); 40% of respondents are due to auto-enrol in 2015 or later. As is clear from the previous section, it is at this point that the majority of charities will auto-enrol. Where relevant, we have drawn a distinction between the responses of those charities that have/or are close to auto-enrolling and those that will be auto-enrolling in 2015 or later.

## Observations from the CFG survey

### 1. Confidence among charities is high, but are they being over-optimistic?

Awareness of auto-enrolment among charities and confidence in capacity to implement it appears to be relatively high. Overall 76% of respondents said they were confident or very confident in their capacity to implement it. Of those auto-enrolling in 2014, this was 84%. For smaller charities, auto-enrolling in 2015, 2016 or after, this was notably lower but still high at 63%.

Based on the feedback we've received from those charities that have already auto-enrolled, we would question whether some charities have underestimated the scale of the task at hand. We would urge organisations to take time to understand their requirements, learn lessons from early enrollers and ensure they plan effectively. 83% of charities auto-enrolling in 2015 or 2016 have not yet put a plan in place. While the staging date may appear some way off, we would encourage charities that are auto-enrolling later to note that the general advice from experts and charities that have contributed to this guide is to begin preparing at least 9-12 months in advance of staging.

Auto-enrolment is an onerous task. We have concerns, shared by other industry bodies representing small employers, that while larger employers have the time, resources and often dedicated teams to prepare for it, smaller employers have fewer resources. With a large numbers of small charities auto-enrolling in 2015 and after, we are concerned as to whether there will be sufficient provision and support in the market to assist them. Improved support and packages for small employers, including many charities, will be vital.

### 2. Risks of assuming pension providers will operate existing pension arrangements on same terms for auto-enrolment

A surprising number of responding charities say they intend to use their current DC scheme for auto-enrolment; almost 70%. 50% say that they are likely to use the current scheme on current contribution basis for auto-enrolment. 30% said they are likely to auto-enrol staff into a scheme in line with minimum contribution levels. There may well be strategic drivers for these choices. Typically:

- For charities with high levels of take up currently, it may appear to make sense to offer the current scheme at current contribution levels as any additional take up costs will be minimal, and there may be an expectation that people who have not joined will opt out. In these instances using the current scheme may appear to be a logical step
- However, where there are low levels of take up, perhaps in charities with lower paid staff, even auto-enrolment at 1% may mean a big increase in cost. This may result in a need to offer less generous contributions

A notably higher proportion of survey respondents auto-enrolling in 2015 and 2016 say they plan to use their current scheme on current terms than the proportion of those who have already auto-enrolled. Based on this, and feedback we have had from charities that have already auto-enrolled, we are concerned that some charities may be assuming that their current pension provider will automatically accept auto-enrolled members into their scheme. However many pension providers are wanting to change the terms for auto-enrolled employees and in some cases they will not accept them at all. We would urge charities to check with their pension providers and to conduct the necessary due diligence.

That less that 7% were planning to use NEST was also surprising.
We envisage that this will be higher in practice.

**3. Costs can be high, and are perhaps under-anticipated**

The costs of auto-enrolment may well be high. 70% of charities responding to our survey have less than 60% of employees in a pension scheme and 47% have less than 40%. With more individuals to auto-enrol, it may be expensive for some charities.

This may particularly be the case if the 50% who currently say they will auto-enrol on the current employer contribution basis do so. 20% of respondents report current contributions as being 5%, 30% as being 6-7% and 18% as being 8-10%. In practice, we think it likely that more charities will opt to auto-enrol closer to minimum contribution levels, as the experience of those who have already passed their staging date seems to suggest.

Furthermore, 50% of charities expect less than 10% of staff to opt out. The low opt-out rates are in line with wider research which suggests that opt-out rates from those who have auto-enrolled to date are around 9%. It is worth planning for low opt-out rates.

Additionally, 53% of schemes have an annual management charge of greater than 0.5% (the “average level for NEST members”) and worryingly 40% say they don’t know what their management charges are. While the current Government consultation to cap management charges is welcome, we remain concerned that there is a big risk members will be auto-enrolled into “poor value” schemes.

At a time when income is under pressure and budgets are squeezed on all sides, building these costs into budgets and planning assumptions at an early stage is strongly advisable.

**4. Governance is not always good**

Governance around pensions is an on-going duty under auto-enrolment legislation. 21% of respondents said they review their investment strategies and aims of the default investment option annually, 20% say every two to three years and almost 50% of respondents confirmed that they do not review at all. In addition, almost 60% provide no support for members to source the best deal at retirement and 50% appear to have no formal governance arrangements in place. We would urge charities to question whether their DC schemes are well run.

# Step 1
## Getting started

## Suggested timeline:
## 12-9 months before your staging date

### Top Tips

- Make sure you know your staging date. If you are unsure, contact the Pensions Regulator to find out
- Decide whether you will apply postponement to some or all of your workforce
- Get a project team together from the start and ensure that key stakeholders within your organisation are clear of the role they will play within the auto-enrolment project
- Decide whether you will require any external advice – e.g. a financial adviser or pension's consultant – and seek that early
- Understand your workforce and your duties towards different categories of workers
- Consider any engagement and communications with employees

**Experience from charities:**

*'A key early decision we made was that the set-up of auto-enrolment would be handled as a separate project since it cuts across several different departments: society; personnel, pensions, finance, IT and communications'*
– Auto-enrolled in 2013

*'It's very clear that the more one becomes involved in the detail of the process, the more complex it becomes. It needs a good 9-12 months lead time unless 100% time can be dedicated to it'* – Auto-enrolling in 2014

*'The Pensions Regulator has prepared some very useful information on their website and run some webinars, which have been very informative'*
– Auto-enrolling in 2015

### Useful references for this section

- www.thepensionsregulator.gov.uk/employers/main-steps.aspx
- Getting ready (TPR)
- Employer duties and defining the workforce (TPR)
- Safeguarding individuals (TPR)

## 1.1 Know your staging date

You will be assigned a 'staging date' from when you have to comply with auto-enrolment duties that apply to your charity. Staging dates are determined by the total number of people in your largest PAYE scheme on 1 April 2012, from data that was provided by HMRC to The Pensions Regulator (TPR). Please note that there is no appeal process if you think your staging date is incorrect.

- **Finding your staging date**

The more people in the PAYE scheme on the 1 April 2012, the earlier the staging date for auto-enrolment. If you are unsure of your staging date, then you can find out by visiting TPR's website and entering your PAYE reference numbers. (www.thepensionsregulator.gov.uk/employers/tools/staging-date.aspx)

If you have multiple PAYE schemes your staging date will be determined by the largest PAYE scheme in use. This will be the case even if the majority of your workers are not in that PAYE scheme.

TPR will contact you one year ahead of your staging date and will supply regular updates to your nominated contact in the run up to staging.

- **Bringing forward your staging date**

Any employer can bring their staging date forward. You may wish to do so to align with the start of the financial year for example. If you do so, you must notify the Regulator, in writing or through the online registration portal, that you have done this at least one month before the new date.

- **Some small employers**

Some 'small employers' can choose to move their staging date to a new (later) prescribed date between August 2015 and August 2017. 'Small employers' in this instance are those with:

- Fewer than 50 workers on 1 April 2012, and
- Who had, or were part of, a PAYE scheme, or schemes, in which there were more than 50 persons on 1 April 2012

### Key terms

**Staging**
The staggered introduction of the new employer duties, from 2012, starting with the largest employers. New PAYE schemes will be staged last.

**Staging date**
The date when the new law is 'switched on' for an employer.

**Auto-enrolment**
When an employer places eligible jobholders into an auto-enrolment scheme 'automatically', i.e. without the jobholder's involvement. An individual who is auto-enrolled is free to opt out and can stop saving at any time, but needs to take action to do so.

## 1.2 Postponement

*Around two thirds of respondents who auto-enrol in 2013 or early 2014 are postponing. Those respondents auto-enrolling in 2015 or 2016 are significantly less likely to say they will postpone, with only 20% saying they intend to do so.*

Postponement is a misleading term that does NOT refer to deferring your staging date. Instead, postponement refers to postponing auto-enrolment for some or all of your workers for a period of up to three months. This is sometimes known as a 'waiting period'. Once you have identified your staging date, you will need to decide whether you intend to use postponement with respects to one or all of your workers.

An employer might elect to use postponement for a number of reasons:

- Postponement at staging date means that the bulk assessment can be taken at the most convenient time and used to manage cash flows
- Aligning enrolment dates with pay reference periods to avoid calculating pension contributions on part-period earnings
- To avoid enrolling temporary or short-term workers, or those with any form of spike in their earnings
- To stagger the impact of staging by enrolling different groups of workers over a three month period
- To allow contractual joining to a scheme on a salary exchange basis

If you decide to apply postponement, you must issue a notice to the workers that will be postponed. There are four different types of postponement notice; therefore it is important to decide early about postponement and, if intending to do so, which type of postponement notice to use.

## 1.3 Create an auto-enrolment project plan

*82% of respondent's auto-enrolling in the first half of 2014 have a project plan/team in place, but 83% of those auto-enrolling in 2015/16 have not yet done so.*

Once you have established your staging date, it is important to draw up a project plan to help you manage the auto-enrolment process effectively within your charity. It is advisable to put together a project team from the start to help you do this. Many of the charities that have already auto-enrolled have taken this approach. Include key stakeholders – HR, finance, payroll, administration and legal – and ensure that they are clear on their role in delivering auto-enrolment within your charity.

Consider also whether you need additional support from your pension provider and /or a financial adviser and seek this early.

## 1.4 Understand your workforce

It is important to understand the different categories of 'worker' within your charity;

a) 'eligible jobholders'
b) 'non-eligible jobholders'
c) 'entitled workers'

and the duties you have towards each category.

Definitions of each category are as follows:

| Category | Who it applies to | Duties |
|---|---|---|
| **Eligible jobholders** | • Aged 22-SPA<br>• Working in UK<br>• Earning above £9,440 | Eligible jobholders must be auto-enrolled into an auto-enrolment scheme |
| **Key terms**<br>**Non-eligible jobholders'** | • Aged 16-21 or SPA-74<br>• Working or ordinarily working in the UK<br>• Earning above £9,440<br>**OR**<br>• Aged 16-74<br>• Working in UK<br>• Earning above £5,668 but below £9,440 | Non-eligible jobholders have a right to opt into an auto-enrolment scheme |
| **Entitled workers** | • Aged 16-74<br>• Working or ordinarily working in the UK under a contract of employment<br>• Earning below £5,668 | Entitled workers have a right to join a pension scheme |

**Key:**
**£5,668** Lower earnings level for qualifying earnings for the 2013/2014 tax year*
**£9,440** Earnings trigger for auto-enrolment for the 2013/14 tax year*
**SPA** State pension age

Employers will need to know workers' ages and salaries in order to assess them.

It is also important to establish whether you have contractors or agency staff working for you, and whether you'll have any duties in relation to them. You will need to look at their contracts for clarification.

## Key terms

**Worker**
A worker is:

- An employee or,
- A person who has a contract to provide work or services personally and is not undertaking the work as part of their own business

## 1.5 Know your duties to your workforce

You will have a number of duties for each category of workers, including:

- **Auto-enrolment**

Enrolling an 'eligible jobholder' into an auto-enrolment scheme without the need for any action by the jobholder.

- **Opting-in and joining**

Arranging membership of an auto-enrolment scheme for 'non-eligible jobholders' who choose to opt in or arranging membership of a pension scheme for 'entitled workers' who ask to join.

- **Managing opt-outs**

Administering the opt-out process for workers who decide they do not want to be a member of an auto-enrolment scheme.

- **Providing information**

Giving specified information to groups of workers within the specified categories.

The initial assessment will identify any 'eligible jobholders', i.e. those workers who you will need to auto-enrol. Employers are not allowed to say or do anything that could be viewed as influencing any of these workers to opt out of their pension scheme. This is a breach of the law known as 'inducement' and could result in fines and/or prosecution. More information about how the law protects the rights of workers to have access to pensions savings can be found on TPR's website.

### Key terms

**Earnings trigger for auto-enrolment**
The amount of qualifying earnings a worker must earn before the duty for their employer to auto-enrol the worker is triggered. For the 2013-2014 tax year, this is set at £9,440. This figure will be reviewed annually by the Government.

**Lower and upper levels of qualifying earnings**
A worker's earnings below the lower level and above the upper level are not taken into account when working out pension contributions. For the 2013-2014 tax year, the lower level is set at £5,668 and the upper level is set at £41,450. These figures will be reviewed annually by the Government.

## 1.6 Consider communications and employee engagement

*60% of charities auto-enrolling in 2015 or 2016 have not yet considered how to communicate with employees.*

It is advisable that you consider how best to engage your employees early on, particularly if you do not currently operate a pension scheme or pension saving is a new concept within your charity. See section 6 for more detail on communications.

# Step 2
## Designing your scheme

### Suggested timeline:
### 12-9 months before your staging date

**Top Tips**

- Agree what level of pension contributions you will make for your workers, bearing in mind that you may offer different levels of contributions to different groups
- Agree what definition of salary you will apply
- Decide whether you will phase in contributions
- Ensure that you allow time for any decisions to be ratified by your Trustees, if applicable
- Budget early and be clear on what costs are likely to be incurred
- Check that any changes to your pension contribution or membership would be acceptable to your pension provider

**Experience from charities:**

*'Right from the outset we decided to go with a simple 'one size fits all' arrangement with minimum contributions. This gave us the opportunity to absorb the immediate cost as well as plan for the increases in future years. As the vast majority of our employees are low-paid, we felt members were less likely to opt-out if contributions were started off at the minimum level'* – Auto-enrolled in 2013

*'This is quite a significant additional cost at a time when surpluses are low, and contract income static'* – Auto-enrolling in 2014

*'Agree whether you will need external help and seek it early'*
– Auto-enrolled in 2013

**Useful references for this section**

- Does your existing pension scheme qualify? (TPR)
- How to choose a pension scheme? (TPR)
- What will auto-enrolment cost me? (TPR)
- Detailed guidance 4. Pensions schemes (TPR)

## 2.1 How to approach designing your scheme

One of the most important decisions that you will have to make is the actual design of your pension scheme for auto-enrolment. The legislation sets out the minimum requirements that your scheme must meet; however, there are a number of other key considerations:

- Will you make pension contributions at the minimum level or at a higher level?
- Will you phase in pension contributions?
- Will you pay contributions based on "qualifying earnings" or another definition of pay?
- Will you delay auto-enrolment using postponement at staging and ongoing, for new joiners?
- Will you allow employee contributions to be made via 'salary sacrifice'?

Your charity's budget, HR strategy and objectives and any existing pension arrangements you currently have in place will influence these decisions. They may need to be ratified by your charity's trustees. You may also wish to see professional advice to help you with the scheme design so it is important to allow sufficient time for this decision making process.

## 2.2 Deciding upon pension contribution levels

*Approximately 40% of those charities auto-enrolling before mid-2014 said they will auto-enrol into schemes on their current contribution basis. 40% said they will auto-enrol in line with minimum contribution level. 55% of respondents auto-enrolling in 2015 or later said they will do so on basis of current contributions.*

You will need to establish what level of pension contribution you will make for their workers. The legislation sets out the minimum contribution levels that must be met; however, you can elect to make pension contributions above the minimum levels. You can also choose to make different contribution levels to different groups of staff, providing the minimum levels are met for each group.

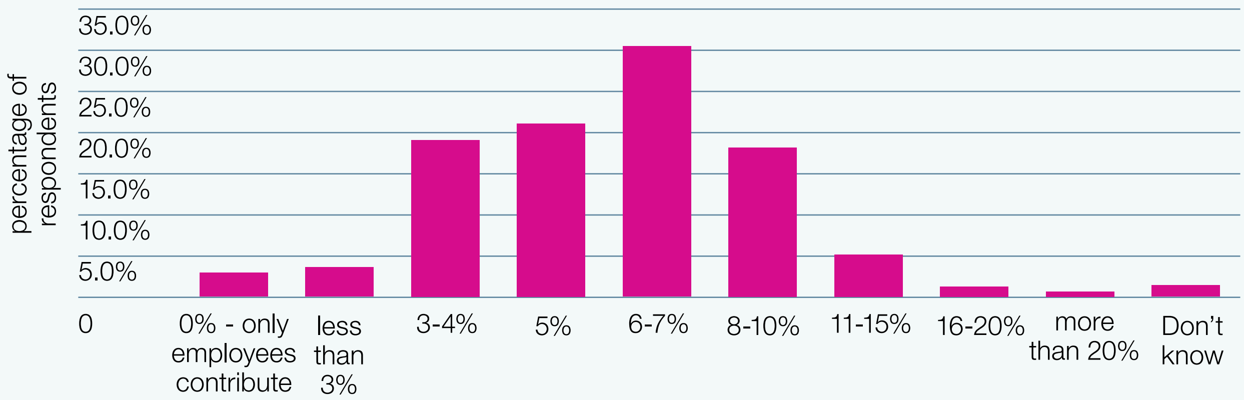
For some charities, the level of pension contribution you make will be limited by the budget available; for others, it may be appropriate to offer different levels of contributions for different groups of workers within the charity e.g. a higher pension contribution for permanent or senior staff and minimum pension contributions for any 'casual' staff you employ.

Consider what will work best within your own individual charity.

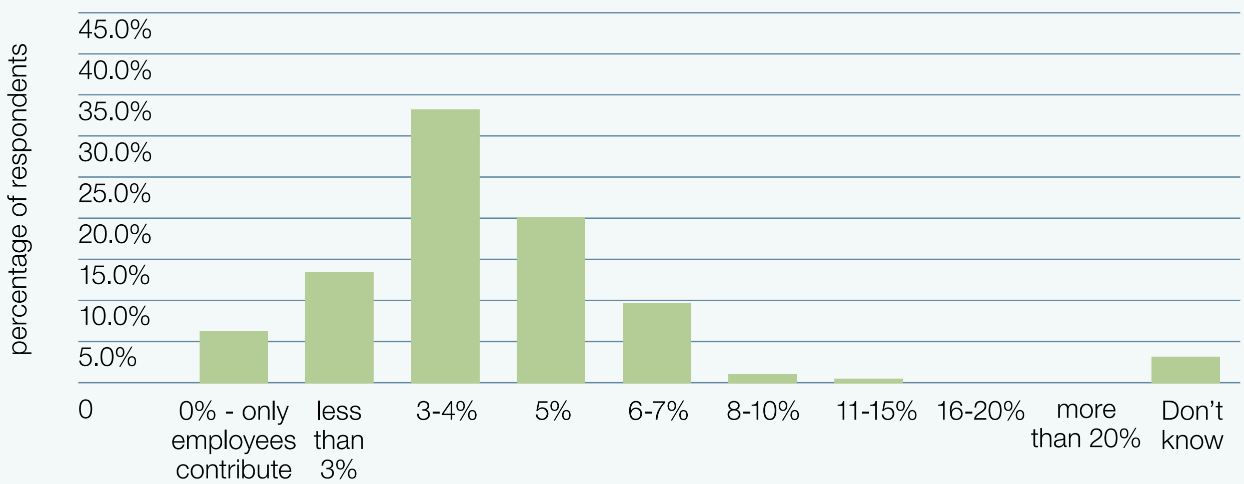
### Design of existing DC schemes used by charities

**Note:** The findings here reflect the scheme design of existing DC schemes used by charities. You will need to consider what is right, appropriate and affordable for your charity to use for auto-enrolment purposes, depending on your specific circumstances.

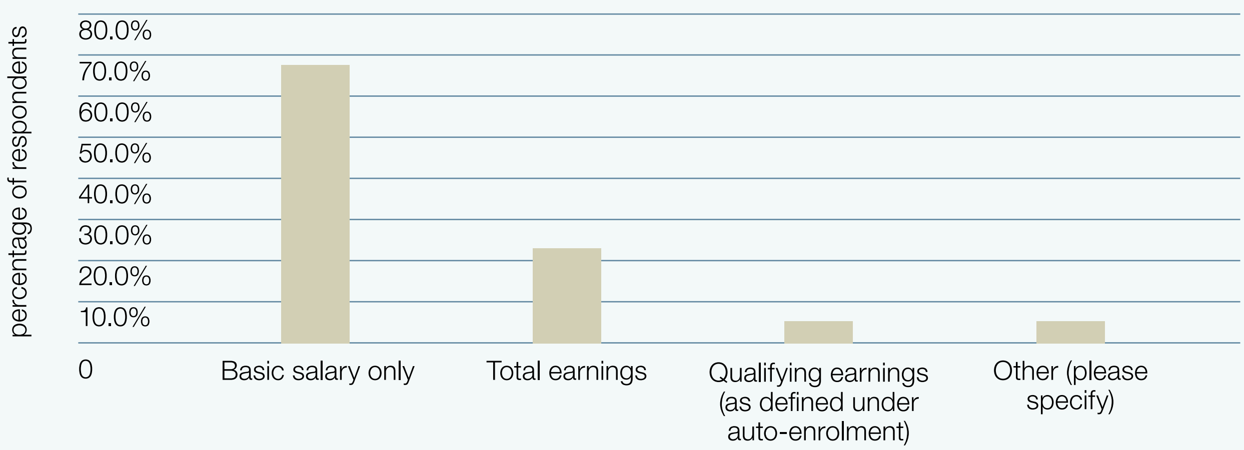
## Average employer pension contributions of respondents



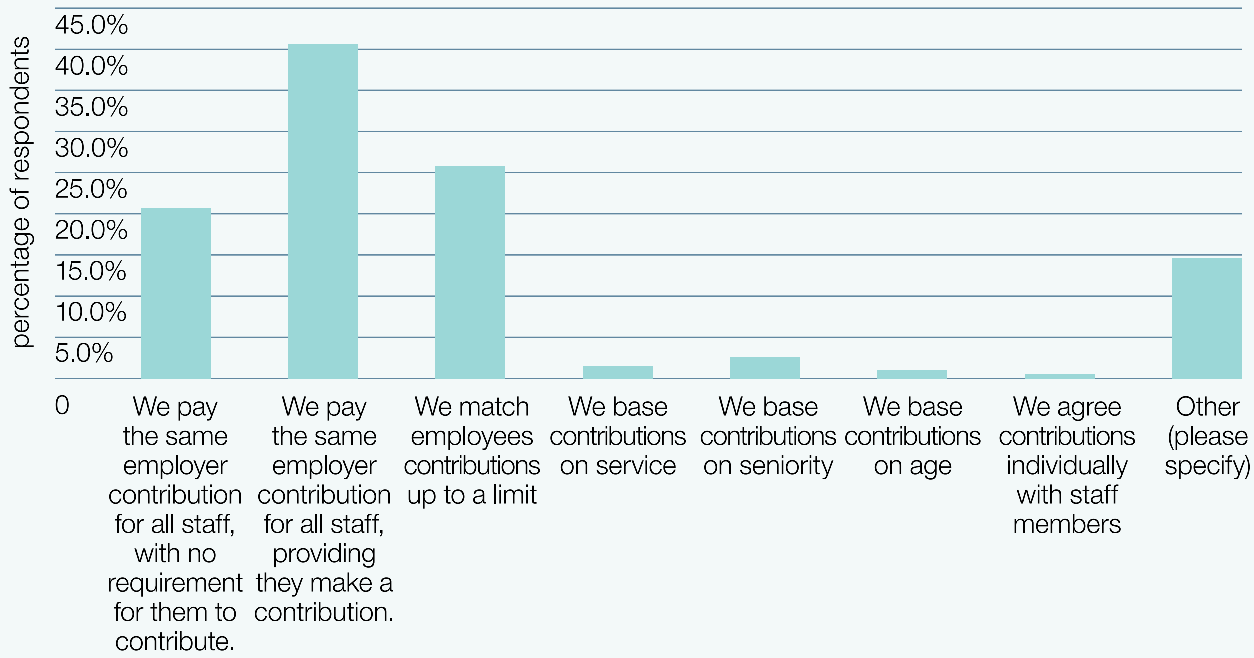

## Average member pension contributions of respondents



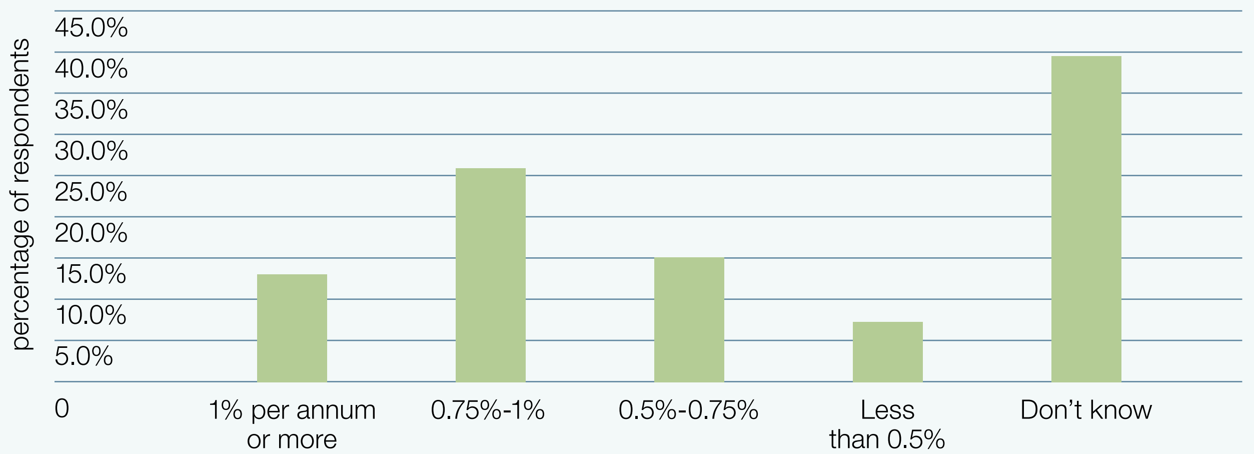

## What earnings are pension contributions based on?



## Contribution design of respondents




## Annual management charge taken from the investment for running the plan




## 2.3 Phasing and minimum pension contributions

Auto-enrolment legislation allows for the minimum pension contribution rates to be introduced gradually; this is known as 'phasing'. Phasing can be used by organisations to help manage the financial implications of auto-enrolment, particularly if there has been no pension scheme in place before, or low take-up rates amongst workers.

The minimum contributions are currently a total contribution of 2% of 'qualifying earnings' with at least 1% employer contribution. Over time this will increase to 2% and eventually 3% as set out below.

### Key terms

**Phasing**
A worker is:

- For DC schemes, the gradual phasing-in of contribution levels until they reach the minimum level required by law

| Until October 2017 | | October 2017 to September 2018 | | October 2018 | |
|---|---|---|---|---|---|
| **Total Contribution** | **Minimum Employer Contribution** | **Total Contribution** | **Minimum Employer Contribution** | **Total Contribution** | **Minimum Employer Contribution** |
| 2% | 1% | 5% | 2% | 8% | 2% |

## 2.4 Definition of salary

*54% of respondents intend to make pension contributions based on a % of basic salary, 15% as a % of total earnings and 16% as a % of qualifying earnings. Charities that have already auto-enrolled were slightly more likely to have used qualifying earnings.*

Employers have the option to decide which definition of salary to use to calculate pension contributions, provided they comply with the minimum requirements.

**a) Qualifying earnings**

You can choose to self-certify your pension scheme but if not, then the minimum contributions must be based on qualifying earnings which includes all of the following pay elements (gross) over a period of 12 months, between the qualifying earnings threshold and the upper contribution limit (i.e. between £5,668 and £41,450 in 2013/14 tax year):

- Salary
- Wages
- Commission
- Bonuses
- Overtime
- Statutory sick pay
- Statutory maternity, paternity and adoption pay

### b) Pensionable pay

Many current pension schemes use a definition of pensionable pay that is different to qualifying earnings. To help you fulfil your duties using an existing scheme, without the need to change the pensionable pay definition to qualifying earnings, there are three alternative quality tests which enable you to certify that your scheme meets certain minimum requirements.

If you choose to certify your scheme, pensionable pay must be at least equal to basic pay for set 1 and set 2 and must be equal to total earnings for set 3. For set 2 you also must ensure that pensionable constitutes at least 85% of the total pay bill for the workers covered by the self certification.

| Certification basis | Total contribution in October 2018 | Employer contribution in October 2018 | Pensionable pay |
|---|---|---|---|
| **Set 1** | 9% of pensionable pay | 4% | At least equal to basic pay |
| **Set 2** | 8% of pensionable pay | 3% | Pensionable pay is at least equal to basic pay and constitutes at least 85% of the total pay bill for the workers covered by the self-certification. |
| **Set 3** | 7% of pay | 3% | All pay is pensionable |

Under the quality test contributions can be phased over 6 years, as follows:

| Certification basis | Until October 2017 | | October 2017 to September 2018 | | October 2018 | |
|---|---|---|---|---|---|---|
| | Total contribution | Minimum employer contribution | Total contribution | Minimum employer contribution | Total contribution | Minimum employer contribution |
| **Set 1** | 3% | 2% | 6% | 3% | 9% | 4% |
| **Set 2** | 2% | 1% | 5% | 2% | 8% | 3% |
| **Set 3** | 2% | 1% | 5% | 2% | 7% | 3% |

## Key terms

**Qualifying scheme**
A pension scheme that meets certain minimum standards set by legislation. There are different standards depending on the type of scheme.

## 2.5 Salary sacrifice

Under a salary sacrifice arrangement, an employee elects to reduce their salary and have the sacrificed salary paid into their pension. As the employer and employee will not have to pay National Insurance (NI) on the sacrificed salary, the pension contribution is increased as the employer can elect to redirect some or all of the NI saving back into the pension. Salary sacrifice is a cost-effective way of increasing pension contributions but employers should be mindful that it may not be appropriate for all staff; employees should seek financial advice before deciding to make contributions via this method.

A worker's consent is required for salary sacrifice, so you must enter into these consultations prior the duty to enrol them in an auto-enrolment scheme arising – this requires significant planning and possible amendments to your payroll.

## 2.6 Preparing for the financial implications of auto-enrolment

*90% of respondents auto-enrolling in 2013 or 2014 have budgeted for it and know approximately how much it will cost them. However only 60% of those auto-enrolling in 2015 and 2016 said they had budgeted for it.*

*65% of respondents said their trustee boards are reasonably well informed and aware of risks. 25% said they are well informed and managing risks.*

From an early stage, it is important to conduct diligence, considering the potential costs of auto-enrolment within your charity and how you can manage these effectively. Consider the following:

- How many employees are currently members of any existing pension scheme that you offer? What percentage does this represent of your overall workforce?
- What percentage of your workforce are 'eligible jobholders'?
- What level of pension contributions do you currently offer to staff who join your pension? Can you afford to continue to make pension contributions at this rate for all staff who will be auto-enrolled? If not, what level of pension contributions is affordable?
- What level of opt-out rates do you anticipate amongst your workforce? Can you afford contributions on a 0% opt-out rate?
- Do you currently offer salary sacrifice? If not, you should consider the financial benefits of allowing pension contributions to be made in this way
- Factor in the costs of any external support that you require to implement auto-enrolment within your charity; for example, the cost of external advisers, any additional internal resource required software solutions and communications to staff

# Step 3
## Processes and software

### Suggested timeline:
### 6 months before your staging date

**Top Tips**

- Research the market and consider which software solution is most appropriate for your charity's needs. Speak to your existing payroll and pension providers to see what systems they have available
- Allow sufficient time for system testing ahead of your staging date
- Make sure all relevant staff have received training on your selected auto-enrolment system
- Experience has shown that getting the right payroll/pension software solutions in place in readiness for auto-enrolment is one of the biggest challenges for employers

**Experience from charities:**

*'Our advice: allow plenty of time for bug fixing and also to familiarise yourself with the new functionality.'* – Auto-enrolled in 2013

*'Numerous issues arose during setup and installation and these were reported to the payroll provider and where required a patch was released to fix the bugs. All setup and testing came to a halt while the software issues were being investigated and resolved.'* – Auto-enrolled in 2013

*'If possible use a pensions advisor with 'middleware' comparable with your broker'* – Auto-enrolled in 2013

**Useful references for this section**

- Business software (TPR)

## 3.1 Research options

*19% of charities auto-enrolling in 2013 and 2014 said they had considered whether they had HR and payroll systems in place to deal with auto-enrolment. Charities auto-enrolling in 2015 and 2016 were much less likely to have considered this yet – only 32%.*

Auto-enrolment is designed to be an automatic process and should, therefore, eliminate the need for manual paperwork and systems. In conjunction with your chosen pension scheme, you need to select the auto-enrolment software that you will use to help manage this process going forward.

Many of the functions required for successful auto-enrolment need to be automated, such as deducting and paying contributions to the scheme, monitoring the ages and earnings of your workers and handling requests to join the pension scheme from workers who haven't yet been auto-enrolled.

A range of auto-enrolment software solutions are currently available on the market; you should consider which will be most appropriate for their charity. Your existing payroll or pension provider may be able to meet your auto-enrolment requirements. Alternatively, there are Middleware solutions available that you could integrate into your current software packages.

Carry out your research early and determine how your chosen software will integrate with your current HR systems. Check what functionality is available for your chosen software:

- For example, does it offer an assessment tool?
- Can the system import and export data in a format compatible with your chosen pensions scheme?
- Does it generate relevant communications to your staff?

## 3.2 Systems testing

You will also need to allow sufficient time for systems training and testing ahead of your staging date, so that you can be confident that your selected software can carry out all of the functions necessary to be compliant.

### Key terms

**Auto-enrolment scheme**
A qualifying scheme that meets additional criteria to be an auto-enrolment scheme. Eligible jobholders who are not already a member of a qualifying scheme on the employer's staging date must be auto-enrolled into an auto-enrolment scheme. The employer will choose the scheme for auto-enrolment.

**Middleware**
Software that occupies a position in a hierarchy between the operating system and the applications, whose task is to ensure that software from a variety of sources will work together correctly.

# Step 4
## Choosing your scheme or provider

### Suggested timeline: 6 months before your staging date

**Top Tips**

- If you intend to use your existing pension arrangements, check with your current provider that they will be compliant with the terms of auto-enrolment
- Agree what basis you will use for certification if applicable
- If you are setting up a new scheme, conduct your research early and ensure that your scheme meets the minimum legal requirements
- Decide whether you need seek professional advice to review and implement your pension arrangements

**Experience from charities:**

*'We found out that our current pension provider is unlikely to have a qualifying pension scheme for auto-enrolment'* – Auto-enrolling in 2014

*'High charges are a barrier that make it hard for us to access independent reliable financial advice'* – Auto-enrolling in 2015

## 4.1 Employers need to have a qualifying pension scheme in place

*69% of respondents plan to continue their current DC scheme under auto-enrolment.*

Under auto-enrolment legislation, all employers must operate a workplace pension scheme that meets all the qualifying and auto-enrolment criteria and provides a good outcome for your workers.

The minimum requirements for different pension schemes are as follows:

### Defined Benefit (DB) schemes

Minimum requirements (below) for DB schemes are based upon the benefits that a jobholder is entitled to at retirement.

- It has a valid contracting-out certificate; or
- It provides broadly equivalent or better benefits than the benefits provided under the test scheme, the features of which are set out in legislation. An actuary will usually carry out this comparison
- Career average pension schemes must meet additional evaluation requirements

### Defined Contribution (DC) occupational pension schemes

The minimum requirements for DC occupational pension schemes are based on the contribution rate. Under the scheme rules:

- The employer must make contributions in respect of the jobholder
- A total minimum contribution, however calculated, must be at least 8% of the jobholder's qualifying earnings in the relevant pay reference period by October 2018 (the phasing rules set out in Section 2.3 and 2.4 apply)
- A minimum employer's contribution, however calculated, must be at least 3% of the jobholder's qualifying earnings in the relevant pay reference period by October 2018 (again the phasing rules apply)

### Defined Contribution (DC) personal pension schemes

A qualifying DC personal pension must:

- Be subject to regulation by the Financial Conduct Authority (FCA)
- Provide money purchase benefits
- Have direct payment arrangements in place
- There must be an agreement in place between the employer, and the pension scheme provider under which the employer must make contributions which, however calculated must be at least 3% of the jobholders qualifying earnings by October 2018 (again the phasing rules apply); and
- If the employer contribution is less than 8% there must also be an agreement in place between the jobholder and the provider under which the jobholder must make contributions which, however calculated, are at least equal to the difference between 8% of the jobholder's qualifying earnings and the employer's contribution by October 2018 (again the phasing rules apply)

### Hybrid Pension Schemes

A hybrid pension scheme is a scheme which combines elements of both a DB and a DC scheme.

Depending upon the type of hybrid pension scheme, the following criteria will need to be met:

- The same minimum requirements as for DB pension schemes or a modified version; or
- The same minimum requirements as a DC pension scheme or a modified version, including the options to use the certification process; or
- A combination of the above

In general terms, each element of the hybrid scheme should be treated as if it is a separate scheme and the appropriate minimum requirements applied to each section

## 4.2 Certification

*Approximately 70% reported that they planned to use their existing pension scheme for auto-enrolment. This was the same whether they had/are in the process of auto-enrolling now or whether it's in the future.*

As mentioned in 2.4, certification allows employers with DC schemes (both occupational and personal pensions) that do not use qualifying earnings as their definition of pensionable pay (e.g. they calculate contributions from the first pound earned) to self-certify that their scheme meets the requirements.

## 4.3 Existing pension schemes

*Only 7% reported that they planned to use NEST and 12.5% reported that they planned to use NEST-like or alternative products*

Some pension providers may look to change the terms of your existing pension scheme if new entrants to it at the date of auto-enrolment will dilute the overall quality of your existing scheme. If your existing scheme doesn't meet the qualifying criteria already detailed and further auto-enrolment criteria detailed below you may be able to change it so that it does. Note only certain "listed changes" will trigger a consultation obligation, such as if auto-enrolment leads to an increase in member contributions to the pension arrangement. You will need to allow extra time to consult with the scheme members on certain proposed changes to the pension, which is usually a set period of 60 days.

## 4.4 Selecting a pension provider and scheme

When establishing a pension scheme for auto-enrolment, employers are required to select a scheme which meets certain legal requirements, for example:

- The scheme does not require a worker's consent to join
- The scheme does not require the worker to provide any information or express a choice
- It allows workers to join from their first day of employment
- Is tax registered in the UK; and
- Allows for minimum legal contributions from both the employer and workers (For DC schemes)

# Step 5
## Getting ready for enrolment

### Suggested timeline:
### 3 months before your staging date

**Top Tips**

- Make sure that you hold up-to-date and accurate records for all employees
- Check that you have email addresses in place for all staff
- Remember that if you need to make changes to your employment contract and/or existing pension scheme in preparation for auto-enrolment, then you will need to allow sufficient time to consult with staff and trustees
- Find out from your auto-enrolment pension provider what information they require from you and when

**Experience from charities:**

*'It's quite difficult for those with non-standard payrolls, with large numbers of employees with significant part-time and flexible working hours'*
– Auto-enrolling in 2014

*'Internal reporting using SQL reporting services was set up to ensure that the pension scheme administrator had access to all the data required to communicate with employees. The report lists employee information such as details of what pension scheme they are in, age next birthday, postponement date and also what letters have been issued. This report provides the scheme administrator with the information in real time'* – Auto-enrolled in 2013

**Useful references for this section**

- Auto-enrolment (TPR)
- www.thepensionsregulator.gov.uk/employers/implementing-automatic-enrolment.aspx

## 5.1 Make a formal assessment of your workforce

A key aspect of successful auto-enrolment is holding up to date and accurate data about all of your workers, so make sure that internal HR databases are correct and current. Contact your auto-enrolment pension provider early on to find out what they will need from you, and when, in order to enrol your workers; assemble all this data in advance.

An employer must assess each member of their workforce to identify into which category of workers they fall. This is to determine the duties the employer will have to carry out for that worker. To do this, you must;

- Identify the worker's age
- Identify whether the worker is working or works ordinarily in the UK, and
- Assess the worker's earnings

Once you have completed this assessment, you will know exactly how your workforce is comprised on your staging date.

# Step 6
Statutory communications

## Compulsory timeline: Within 1 month of your staging date

### Top Tips

- Be clear on what letters you need to send to which workers to fulfill your legal obligations
- Remember that employers cannot give financial advice to staff
- Your choice of software/payroll will greatly influence the workload involved in communicating with your workforce
- Take auto-enrolment as an opportunity to communicate and engage with your employees
- Draw up a communications plan at early stages and consider employing a range of communication. methods e.g. emails, intranet, pension presentations, posters and, payslip notices

**Experience from charities:**

*'Communications task is difficult, particularly if your charity operates on multi-site and therefore does not enable face to face communications'*
– Auto-enrolled in 2013

*'Anticipate a lot of queries over first couple of months'* – Auto-enrolled in 2013

*'For those employees with learning disabilities, whenever possible, we created 'easy read' versions of letters and conducted face-to-face meetings'*
– Auto-enrolled in 2013

### Useful references for this section

- Explaining auto-enrolment to your workers (TPR)
- Letter template tool (TPR)
- Information to workers resource (TPR)

## 6.1 Consider your overall communications strategy

It is worth considering your overall communication strategy at an early point, in addition to being aware of your statutory duties. Some staff may already be aware of auto-enrolment, having heard about it through the media, and will probably want to know how the changes will affect them. A range of key messages across a number of channels works best – keep them short and simple.

- **Key messages to cover**

The message about employer contributions gains attention, as do facts and figures. Staff will appreciate an explanation early on of what auto-enrolment means for them. For example, information about how much they'll contribute and when.

Messages around why saving for retirement is important can help engage staff with the subject of workplace pensions.

- **Channels to use**

It is recommended that you use a range of channels, including articles in your staff newsletter, intranet or in e-bulletins, text messages, email and posters. Suggestions on forms of wording can be found on The Pensions Regulator website to use for:

- News in brief
- Intranet article
- Newsletter article
- Text and email alerts
- Poster templates

## 6.1 Write to each of your workers

One of your employer duties (by law) is to write to each of your workers telling them how they have been affected by auto-enrolment. For example, whether they have been auto-enrolled, or whether auto-enrolment has been postponed for them.

TPR produced some letter templates that will help you write to your workers. They include information on key topics that your workers are most likely to ask about.

Eligible jobholders must be provided with enrolment information which includes information such as:

- They have been or will be auto-enrolled and what this means to them
- Their right to opt out and to opt back in
- Details of where they can find further details about pensions and saving for retirement

# Step 7
## Auto-enrol employees

### Compulsory timeline:
### Within 1 month of your staging date

**Top Tips**

- Be prepared to action auto-enrolment
- Remember that it is the employers responsibility to make sure information is provided on time, and is correct and complete

## 7.1 Timescales

Employers will have one month from their staging date to complete the auto-enrolment process.

If you've chosen to apply a postponement period to any of your workers at the end of the postponement period, you'll have one month to complete auto-enrolment, providing the worker still meets the auto-enrolment criteria.

## 7.2 Actions for employers

Once you are clear who will need to be auto-enrolled, you must action the following before the end of the 'joining window' (the one month period from the eligible jobholder's auto-enrolment date);

1. Provide the pension scheme with information about the eligible jobholder. The following information is mandatory but pension schemes may require additional information:

- Name
- Sex
- Date of birth
- Auto-enrolment date
- Postal address
- National insurance number

2. Provide the 'eligible jobholder' with enrolment information.

3. Make arrangements to achieve active membership for the eligible jobholder, effective from their auto-enrolment date, by making arrangements either:

- For the trustees or managers of an occupational pension scheme to create active membership under the scheme rules, or
- For the provider of a personal pension scheme to ensure that the eligible jobholder is given the information about the policy that is deemed to exist between them and the pension scheme provider.

A key feature of auto-enrolment is that an eligible jobholder is not required to provide any information to either join the pension or remain a member of the pension scheme. Employers can instruct someone on their behalf, such as a financial adviser or pension consultant, to send the information but it remains the employer's responsibility to make sure it is provided on time, and is correct and complete.

Also ensure that your contracts of employment reflect auto-enrolment provision and any other changes in your pension arrangements.

# Step 8
# Registration

## Compulsory timeline:
## Within 4 months of your staging date

### Top Tips

- You should make a start filling in details before your staging date, but you won't be able to submit until after your staging date
- Remember to register within 4 months, otherwise you may be fined
- Use the checklist provided on the Pensions Regulator website

## 8.1 Registration deadline

**You must register within 4 months of your staging date.** So for example, if your staging date is 1st July 2015, you must submit your registration to TPR no later than 2nd November 2015.

All employers are legally required to register with the Pensions Regulator (TPR) within 4 months of their staging date and must submit information about how they have complied with their employer duties. **A full checklist of the information required is detailed on the Pension Regulator's website.**

TPR recommend that employers should make a start filling in details before their staging date. Filling in details as you go through your planning process will help you avoid missing your deadline. As registration requires employers to inform TPR about every person who was in employment on their staging date, you won't be able to submit it until after your staging date.

If you have postponed auto-enrolment for any of your staff, you mustn't submit your registration until after the postponement period has ended. But beware that this could leave very little time between the end of the postponement period and your registration deadline.

**TPR apply fines if registration is not completed by the deadline, so it is advisable to start registration as soon as you can.**

### Key terms

**Registration**
A duty on employers to tell The Pensions Regulator information about the pension scheme they are using and how many people they have enrolled into it.

# Step 9
## Ongoing responsibilities

### Compulsory timeline: Ongoing

**Top Tips**

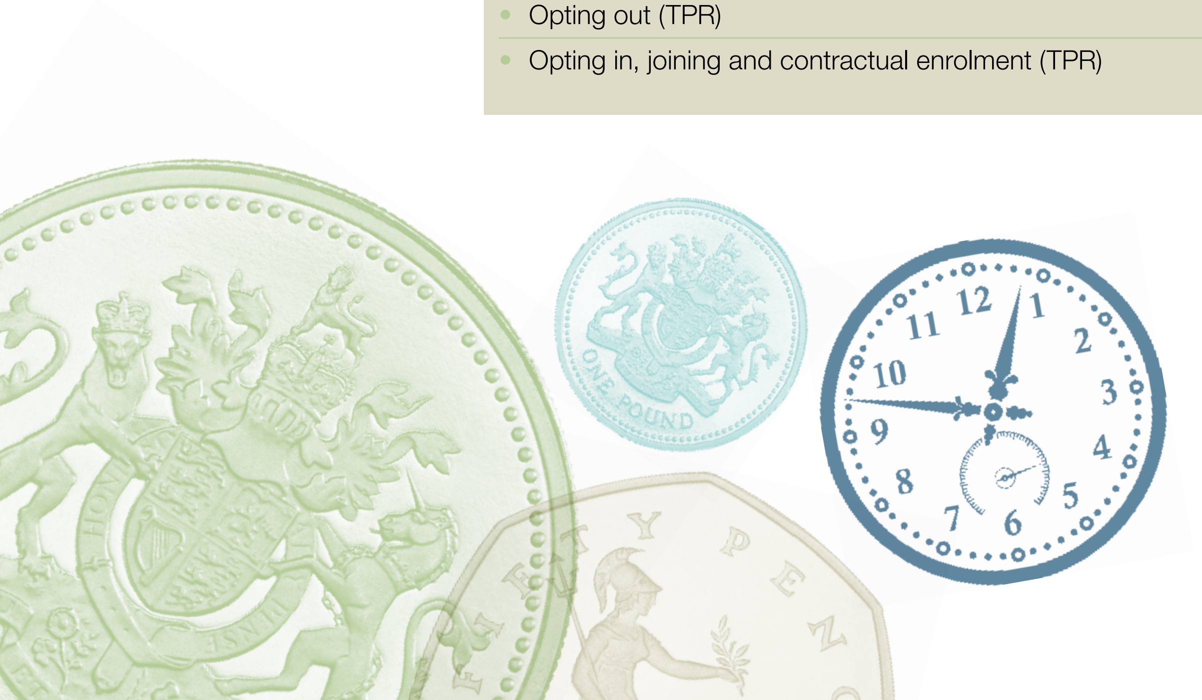
- Be clear what records you need to keep, how long for and agree a secure place to store them
- Make sure you have suitable payroll processes in place so that contributions can be made on time
- Make sure you have appropriate processes in place to deal with opt outs and opt ins
- Continue to monitor ongoing eligibility assessment
- Ensure you have an appropriate default fund

**Experience from charities:**

*'Anticipate low opt out rates'* – Auto-enrolled in 2013

**Useful references for this section**

- Keeping records (TPR)
- Opting out (TPR)
- Opting in, joining and contractual enrolment (TPR)



## 9.1 Keep records

After your staging date, certain records must be kept about your workers and about the pension scheme. These records must be kept for a specified time, which in most cases is six years. By law, there are two different types of records that an employer must keep. These are:

- Records about jobholders and workers e.g. name, National Insurance number, opt-in notice and joining notice.
- Records about the pension scheme e.g. employer pension scheme reference and scheme name and address.

A complete list of what records must be kept is available on TPR's website.

Keeping records is good practice and will enable employers to prove that they have complied with their duties. Keeping accurate records can also help an employer avoid or resolve potential disputes with employees. You will need to decide how you'll store these details so you can easily access them, as you may be asked to produce your records by TPR.

## 9.2 Pay pension contributions

Employers will need to deduct and pay regular contributions into their workers' pensions. Therefore, it is important that your payroll can produce a contribution file in the correct format and have a process in place so that contributions are uploaded on an appropriate date and paid across in time.

Employee contributions need to be deducted from the first payroll run after their enrolment date (even if this is during the opt-out window).

## 9.3 Process opt outs

*Half of charities are predicting less than 10% opt-out rates in line with recent statistics on the first year of auto-enrolment. Almost 30% are predicting between 10% and 24% opt out rates.*

There is a specific timescale within which jobholders can opt out of active pension scheme membership, known as the 'opt-out period'. Jobholders must opt out by giving an 'opt-out notice' to the employer. In most cases, the opt-out notice should be provided to the jobholder by the pension provider; this acts as a safeguard to ensure that the jobholder's decision to opt out is made freely and without influence from the employer.

When you receive a valid opt-out notice, you must refund any contributions deducted from pay back to the jobholder within specific timescales. After the opt-out period has expired, a jobholder who wishes to leave the pension scheme will be ceasing membership under the scheme rules.

## 9.4 Process opt-in requests

You may have workers who weren't auto-enrolled who elect to opt into, or ask to join your pension scheme. You must be able to identify such individuals and process these requests. Employers who are enrolling their workers under contractual agreements outside the employer duties need to understand how the employer duties impact upon such agreements.

## 9.5 Monitor ages and earnings

Every pay reference period, you will need to check the eligibility of any employees who aren't in your qualifying pension scheme.

You should ensure your business software (or pension provider) monitors the ages and earnings of your workers and alerts you if any of them change worker type, eg by turning 22, or starting to earn over a certain amount, as your duties in relation to them will change. Employers will also need to check and review earnings thresholds each tax year.

## 9.6 Assess any new starters

When anyone new starts working for you, you'll need to check whether they're eligible for auto-enrolment. If they are, you'll need to enrol them into your pension scheme following the same process as you did at staging.

## 9.7 Governance, Investment and Default Fund

*50% of respondents said they don't review their pension investment strategy and only 20% said they review it annually*

*50% of respondents have no formal governance arrangements in place for their pensions, and only 20% said they had a formal governance process in place.*

Every qualifying pension scheme needs a default fund suitable for auto-enrolment purposes and subsequently for those employees who do not want to select their own fund.

You need to ensure the suitability of the default fund and as far as reasonable, take account of the characteristics and needs of the workers who will be enrolled into the fund.

# Learning from others

## RSPB

**Taking the first steps towards auto-enrolment: Sharon Drew from RSPB highlights where key decisions had to be made at the start of their preparations, and how a wider team was used to support this process.**

Our auto-enrolment discussion started 18 months before our staging date of August 2013. However, due to various internal pressures work did not really start in earnest until summer 2012, 12 months before our staging date.

At that stage we made some key decisions:

- Due to the complexities surrounding auto-enrolment we would appoint an outside consultant to help us
- The set-up of auto-enrolment would be handled as a separate project since it cuts across several different departments: Society; Personnel, Pensions, Finance, IT and Communications

As Pensions Manager, I was already in touch with some potential outside consultants and had negotiated some initial pro-bono work from one. This included comparative high level costs of different scheme designs as well as a draft project plan.

We then carried out a small tender exercise to appoint our consultant; we appointed our advisors at the end of 2012, who scoped out a high-level project plan for us.

In the meantime, we set up our Project Board. The Project Board consisted of the Finance Director also the board sponsor, Head of Personnel, Financial Reporting Accountant, Pensions Manager, a former Director of HR also a trustee of the RSPB main pension scheme and the Project Manager. In addition, we called on various specialists as and when required.

Our project manager created a more detailed project plan. Monthly Project Board meetings were put in the diary for the next 9 months and a budget was agreed.

Our advisors were then asked to produce costings and options on scheme design.

Initial decisions were then made on:

- Whether to include auto-enrolment in our existing scheme or set up a new scheme
- If a new scheme how would it be administered
- Contribution levels
- Postponement

## Royal Mencap Society

**Communicating complex changes in a complex organisation: Mira Mohideen goes through the main organisational factors influencing their scheme design and how they approached communicating the changes to a diverse workforce.**

### A) Designing the scheme

Key challenges that Mencap faced were:

- Affordability, both from the Employer and employees perspective
- The number of pay elements (some 100+) we had within the business
- Approximately 10% of our workforce was on zero hour contracts

At the start of the process we established that our existing pension arrangement was qualifying for auto-enrolment purposes. However, we decided not to use this scheme since the take up rate was only 10% due to contribution levels and Mencap would not have been able to afford to use this as our vehicle for auto-enrolment. Mencap consulted with our employees and closed the existing plan to one part of our workforce and set up a separate plan (NEST) for auto-enrolment purposes.

Right from the outset we decided to go with a simple 'one size fits all' arrangement with minimum contributions. This gave us the opportunity to absorb the immediate cost as well as plan for the increases in future years. As the vast majority of our employees are low-paid, we felt members were less likely to opt out if contributions were started off at the minimum level.

We chose to use the 3 month postponement window. This gave us more time to ensure that the payroll processes were robust, that staff were properly trained and the communication plan was having the required impact.

On the definition of salary (qualifying earnings) our approach was to include all earnings that were taxable on a PAYE basis. We felt that this was the fairest approach considering the contributions were kept to the minimum level. It was also the safest way to ensure compliance without racking up lawyers' fees trying to assess if there were any pay elements that could be excluded to save costs.

Mencap already uses a salary sacrifice arrangement for its existing plan and we had assumed in our budgeting that we would use the same for auto-enrolment purposes. However, based on the amount of work we had to do to prepare for auto-enrolment we agreed to defer this to a later date.

## B) Communications

### 1. Raise general awareness among your workforce

At Mencap we knew that the communication piece for auto-enrolment was going to be challenging – largely because a majority of our workforce do not have a work related email address and some of our employees have learning disabilities. In addition, we were proposing to make changes to the existing scheme which required consultation with staff, introduce NEST, implement salary sacrifice as a pre-curser to auto-enrolment and, all of these, needless to say, are complex issues. Then there was the issue of making sure we kept the cost to the minimum.

On the plus side we started the process very early, at least, 9 months before staging date, so time was on our side. In addition to the technical know-how of the pension team, Mencap has a strong internal communication team who, from the outset, worked closely with the project team. Our decision to use postponement meant we had a further 3 months to keep the communication campaign going.

We started introducing the concept of auto-enrolment in July 2012 as part of the consultation process to make changes to the existing pension arrangement. We then drip fed information as the project was making progress whilst re-iterating key messages. We used a combination of methods including meetings with staff representatives, letters to all employees where it was necessary, messages and updates on our intranet, cascades via manager bulletins, messages on payslips and posters in our offices. For those employees with learning disabilities, whenever possible, we created 'easy read' versions of letters and conducted face to face meetings. We also updated our website, standard contracts and information packs which are sent to prospective and new employees.

### 2. Write to each of your workers

In addition to the letters we had to send out regarding changes to the pension arrangements as part of the consultation process, we took the approach to send the minimum number of letters in relation to auto-enrolment to satisfy statutory requirements.

As we used postponement, we sent a letter to the entire workforce in April 2013 to state this fact, as required by the Regulator. This meant that, in July, we only had to write to those who were eligible to be auto-enrolled which was approximately half our workforce. The third letter is the version sent to those new employees who meet the eligibility criteria each month.

To ensure compliance, we used the standards in the Regulator's website as a starting point. This is useful as it highlights all the mandatory information that needs to be included. We then changed the wording and format to reflect house style and language. NEST was very helpful in pointing us in the right direction.

Overall, we felt our approach to communication was effective as we started early and used a number of methods to ensure it reached all our employees and they understood it. In addition, we kept cost to the minimum by using a combination of our internal expertise, the Regulator's website and help from NEST.

## NSPCC

**Managing the cost of automatic-enrolment: David Roberts looks at using advisers to help ensure that basic elements of scheme design enable them to mitigate potential affordability risks while providing a quality pension.**

NSPCC has operated with a Defined Contribution Scheme since December 2009. With 800 (40%) members of staff not in the DC scheme and an annual pension cost for the existing DC members of £4.4m, the potential financial impact of auto-enrolment were significant. Enrolling in an existing scheme would on average cost over 8 times as much as enrol them in a scheme which contributes the prescribed minimum contribution rate. If you need to enrol 40-50% of your employees there is a significant cost implication of this decision. Whilst non-members tend to be our lower income and younger employees, the cost of enrolling them would still amount to £1.6m pa if they did not choose to opt out.

We engaged an adviser to help us to devise a mitigation strategy that had several components:

- Create a new low contribution scheme mirroring the minimum required for auto-enrolment qualification
- Reduce the cost of the existing plan

We of course had additional requirements:

- To have an appropriate pension strategy that met the needs of all the plan members
- For the scheme to have online systems that provided scheme information and planning tools to employees

Three months after communicating our plans to employees, and one month after our auto-enrolment staging date only 4% of those who were not already in the scheme have elected to join the main higher contribution scheme.

## Royal Opera House (ROH)

**Developing the systems for auto-enrolment: Manjeet Sandhu from Royal Opera House shares how contingency planning, testing and making use of lead-in time, helped them to develop a new system for administering auto-enrolment.**

The planning and scoping phase of the project commenced over 12 months in advance of the staging date and much of this phase involved modelling the cost implications and process flows required to run auto-enrolment.

Processes were mapped using a flowchart based approach to identify the outcomes of different scenarios. The different scenarios were all included on a question based flowchart and the outcomes were used to both formulate a test plan and to determine the process required after going live to administer the scheme and issue the correct mandatory letters to staff.

We were advised by our payroll provider that an AE enabled version of the software would be available on May 13, leaving us with 3 months to test software functionality.

The software was initially installed onto a test server and a test plan was devised based on the process flows that were identified in the scoping phase. Numerous issues arose during setup and installation and these were reported to the payroll provider and where required a patch was released to fix the bugs. All setup and testing came to a halt while the software issues were being investigated and resolved.

Two staff groups were required to be enrolled into different pension schemes: the employees in the company scheme, for contractual reasons, and the casual workers into NEST. Our current pension provider was unwilling to take on casual workers who would generate large amounts of low value contributions which would increase their administrative burden. The government scheme, NEST was the preferred option for this group, as it was setup by the government to cover all workers, (especially casual workers) and is easily transferrable between employments.

The auto-enrolment process could only be run with one default pension scheme per Payroll Company. A split of the payroll dealt with this: our payroll provider issued a script that would copy employee details and payroll history from one payroll company to the newly setup company and delete the resulting duplicate records.

When the setup was completed testing commenced to ensure that the system correctly assessed the employees. Various scenarios were run that reflected the complexities around the different staff groups, as documented using the flowchart approach, as well as testing the basic requirements of eligibility as required by the legislation.

Internal reporting using SQL reporting services was set up to ensure that the pension scheme administrator had access to all the data required to communicate with employees. The report lists employee information such as details of what pension scheme they are in, age next birthday, postponement date and also what letters have been issued. This report provides the scheme administrator with the information in real time.

When the test phase was completed the software was installed on the live system and auto-enrolment was setup and enabled before the staging date.

## National Autistic Society

**Learning from experience: Paul Harper, from the National Autistic Society, talks about some of the lessons learned from the initial implementation of the auto-enrolment scheme and shares some wisdom on how to ensure successful take up.**

The National Autistic Society (NAS) is the leading UK charity for people with autism. We are a larger-sized charity with a workforce of 3,500 scattered over 100 sites, and we have a turnover of about £95m. We run eight schools and a large number of adult services covering the four home nations, in addition to campaigning and individual and family support. As Director of Finance, IT and Resources, I have been responsible for pensions for just over three years.

Luckily I took over responsibility for pensions when auto-enrolment was just starting to be discussed, so I had the benefit of attending various seminars and talks in 2010/11. I employ one pensions officer and the administration of our main pension scheme is outsourced to Capita Employee Benefits (formerly Bluefin).

We currently offer open membership of the Teachers' Pensions Scheme and the Scottish equivalent. In addition, we have active members in two Local Government Pension Schemes. Our main pension is a Group Personal Pension plan with Scottish Widows.

Our strategy was to use the Scottish Widows scheme for auto-enrolment, but to take advantage of the statutory phasing and enrol staff initially at 1% employees and 1% employer's contributions, while holding terms for current scheme members at the levels they were at, so no one lost out.

Previously, we had 702 staff in a pension out of 3,600 (20%), whereas after two phases of auto-enrolment that figure now stands at 2,216 (67%). We have about 1,200 staff who are outside the age and pay bands for auto-enrolment. Only 107 staff opted out in the statutory period (6%) and a further 100 have subsequently dropped to nil contributions.

The process is never smooth but it has gone reasonably well and that is due to having sufficient time to plan and engage the trustees in strategy and communicate with staff. We sent out at least three communications to staff in the six months leading up to our staging date, and involved key players in the process via a project board (for NAS that was payroll, pensions, IT, Capita Benefits and Scottish Widows).

**Some of the issues to be aware of when planning an implementations are:**

- Determining and agreeing a pensions strategy with trustees
- Establishing a project team (of key players)
- Preparing a financial model – I would now recommend assuming an opt-out rate of around 6-8%, based on evidence to date
- Identify a pensions provider – the number of providers willing to take staff on auto-enrolment is declining, so sort this early
- Select a 'middleware' provider – auto-enrolment requires a lot of administration (statutory communications, continual assessment, notifications, management of opt outs, record keeping etc). A middleware provider can be either a pensions broker, payroll provider/ system or pensions provider

- Communications – keep messages simple and use visual aids. Don't use 'pensions' as a headline, people fall asleep literally! I adopted "saving for your future"
- Don't give advice to staff – this is illegal under the Pensions Act, you must be factual and neutral
- Do not use a defined benefit (final salary) pension scheme as your vehicle for auto-enrolment – use a defined contribution scheme to to control long-term costs

**Lessons we learned from the process include:**

- Prepare a pensions strategy at least one year prior to staging date
- Decide how you are going to do the auto-enrolment, assessments, notifications and opt-outs
- If possible use a pensions adviser or broker with middleware that is comparable with your payroll
- Don't change payroll provider or pensions provider within six months of auto-enrolment
- Don't have a change of staff a week before the staging date – I did but we survived due to the time we had allowed for planning
- Do get buy-in and commitment from all key players to make the project a success
- Anticipate low opt-out rates
- Anticipate a lot of queries over the first couple of months
- If changing pension arrangements, look to maintain your current scheme so as not to disadvantage existing pension scheme members
- Don't be worried if not everything goes to plan – what the Pensions Regulator will be looking for is evidence of planning and a commitment to making the transition a success

**What do we still need to?**

We assessed most of our staff for a staging date of July 2013, although we deferred a number of staff for three months to October. We now need to work to improve our processes in terms of ongoing recruitment of staff, and improving information flows with our middleware provider and pensions provider. While this still represents ongoing work, we have survived auto-enrolment and more than tripled our number of staff in a pension scheme.

# Available resources

Department of Work and Pensions
www.gov.uk/government/organisations/department-for-work-pensions

The Pensions Regulator
www.thepensionsregulator.gov.uk

The Pensions Advisory Service
www.pensionsadvisoryservice.org.uk

Pension Quality Mark
www.pensionqualitymark.org.uk

National Association of Pension Funds
www.napf.co.uk

National Employment Savings Trust (NEST)
www.nestpensions.org.uk

Charity Finance Group
www.cfg.org.uk

# Partners

## Foster Denovo

Foster Denovo is a national financial advisory firm who provide a range of financial services to individuals, corporate and charitable organisations including Mortgages and Protection, Investments, Financial Planning, Insurance and Pensions and Employee Benefits. Foster Denovo is proud to have been awarded Money Marketing's 'IFA of the Year 2013'.

Foster Denovo has a longstanding relationship with the charity sector and work with over 150 charities, ensuring that they have a sound understanding of the unique challenges that organisations face. With a dedicated charity team, Foster Denovo provides advice on pensions and employee benefits and offers specialist auto-enrolment solutions to employers as they prepare for their staging date.

Call Ian Bird on 084 5838 6060 or email him at Ian.Bird@fosterdenovo.com
**www.fosterdenovo.com**

## Premier Companies

If you have experience of the pensions industry, chances are you believe the service provided is general poor and it's often overpriced. We thought this is all wrong, so in 2003, we made a decisive break by starting a new business that's fundamentally different. We are determined that our client's experience would never be 'same old, same old'. All clients get at service that is intelligent, accurate, timely and forward-looking, at a competitive price.

Premier Pensions dedicated Charities Team comprising pension experts, actuaries and financial advisers have in-depth knowledge of the issues facing the sector. We provide an active commentary on new legislation and issues affecting not for profit organisations.

Call Rob Cooper on 020 8663 5844 or email him on rob.cooper@premiercompanies.co.uk
**www.premiercompanies.co.uk**

## Stephenson Harwood

Stephenson Harwood has provided specialist pensions legal advice to not-for-profit and corporate organisations and trustees for over 30 years and is acknowledged in Legal 500 and Chambers & Partners as a leading pensions law firm. It comprises 110 partners and over 600 staff and has specialists capable of dealing with virtually every commercial issue affecting any organisation. The Stephenson Harwood pensions team is one of the larger city based pensions teams.

Call Philip Goodchild on 020 7809 2161 or email him at philip.goodchild@shlegal.com
**http://www.shlegal.com**

**Charity Finance Group**
**www.cfg.org.uk**
**Telephone: 08453453192**
**Fax: 0845 345 3193**

Registered charity no. 1054914
Company no. 3182826


**£15.00**