A useful guide to automatic enrolment

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In the fourth of a series of articles we will look at 'choosing a scheme provider.' The article touches upon:

- Suitability
- Charges and achieving value for money
- Keeping it simple
- Default funds

As an employer you are legally required to enrol your workforce into an eligible scheme. There are lots of schemes out there, but you must choose one which meets the automatic enrolment qualifying criteria. This normally includes:

- Does not require the worker's consent to join
- It allows workers to join from their first day of employment
- It is tax registered in the UK
- It allows for the minimum legal contributions from employers and workers

If you have an active pension scheme in place you need to establish whether your current scheme meets these criteria. Alternatively you can ring-fence your existing scheme and implement a new automatic enrolment scheme alongside it to meet your new legal obligations. Another option is to close your existing scheme in favour of enrolling all existing and future members in a new scheme.

If you are considering using an existing scheme for automatic enrolment, the first step is contacting the provider to establish whether the scheme meets three sets of criteria:

- Automatic enrolment criteria
- Qualifying criteria
- Minimum requirements

If your existing scheme meets the above criteria, it can be converted to a Qualifying Workplace Pension Scheme (QWPS). Existing members would not need to be auto-enrolled. Your pension provider can arrange this for you.

If you do not have a pension scheme in place, you will need to identify a scheme which meets the legal requirements. When choosing a scheme, you may set up a new occupational pension scheme or a group personal pension scheme.

Whether it is a new or existing scheme, you must be satisfied that it meets the criteria to be an automatic enrolment scheme before you use it and in all cases, the choice of scheme is your responsibility.

Suitability

You have the right to choose any available automatic enrolment scheme in the market. However, the legislation indicates that you should make a selection that is reasonably suitable for your workforce.

For example, a scheme with higher initial charges but lower ongoing charges might be more suitable for your workforce if your employees tend to stay with you for a long time before moving employers or retiring. Such a scheme would not be suitable if your staff turnover was very high, in which case a flat rate of charges may be better. You should ask the scheme provider what type of worker the scheme is suitable for and make sure you record your thought process.

Charges and achieving value for money

There are currently no hard and fast rules regarding the level of charges. From April 2015, a maximum fund annual management charge of 0.75 per annum will be introduced, which will apply to the default investment. Some providers already offer schemes with a lower charge than the proposed price cap, but may offer a restricted fund range or less flexibility in terms of options at retirement. Pension providers that offer a higher scheme charge can add value for your workers. These include administration services, technology platforms, higher quality communications or more support for members as they reach retirement.

Automatically opting for the lowest level of charges possible may not give the best result for employees. Conversely ignoring the impact of charges is not a sensible approach either. These costs and charges can have a significant impact on member's eventual retirement income and they should be a key consideration for you when assessing value for money. It is very important that you understand what your workers get for their money, how much it costs and whether they need any extra services provided.

The cost of advice may need to be factored into your decision as well. Since the end of 2012 it has not been possible to offer commission on new schemes, though it may continue on existing schemes if the terms are not altered. Where commission is not available, you will have to pay the cost of any advice you receive directly, by paying fees to an adviser.

Keeping it simple

Workers' interest in, and understanding of, their pension savings is often very limited. For instance, they may be automatically enrolled into the scheme as a member and might not actively decide anything until they reach retirement.

It is important that the pension scheme you choose reflects the fact that members may not be engaged in choices about their pension savings. Members should be given the opportunity to understand the setup and structure of the scheme, but they should be protected even if they do not make active decisions about their pension savings.

Default funds

The Department of Work and Pensions has published default guidance setting out industry standards for governance of funds, charging structure and communications. Contributions will be automatically invested in the scheme default fund, unless the jobholder actively selects another fund choice. The default fund must include a de-risking strategy, known as "life styling" in the period up to retirement.

It is crucial that the default fund is appropriate because it is likely that a large proportion of your members will end up using it.

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