The auto-enrolment regime is all about encouraging greater engagement by UK workers in pension saving, by getting UK employers to enrol workers into appropriate arrangements. As a trustee of an existing scheme, none of the immediate duties fall on you: but there’s a lot you can do to assist your scheme’s sponsor in working out an auto-enrolment strategy and assessing what the implications are for your scheme, if it is to play a part in those arrangements.

This series of briefing notes looks at all aspects of the auto-enrolment regime. In this note, we focus on the areas where trustees need to engage with the scheme sponsor to arrive at key corporate decisions, in order to start preparing for auto-enrolment and to ensure that the interests of existing members are protected.

Background

Achieving a smooth transition to auto-enrolment will require a lot of preparation. In the initial stages there are certain key corporate decisions that need to be made so that you, as trustees, know what action you need to take going forward. It will be up to each employer to determine the structure of its auto-enrolment arrangements – for example, using an existing scheme, a different arrangement, or NEST (the new national money purchase arrangement). Your expert knowledge of existing arrangements can help the employer work through the issues.

The new regime also carries a lot of process requirements – notices to be issued, deadlines to be met and records to be kept – both you and the employer need to have a clear idea of what processes and changes will be needed ahead of implementation. The Pensions Regulator suggests that working groups be set up involving trustees and employer representatives, HR and other relevant parties, to make sure that all areas are covered in the planning and decision-making process.

What decisions need to be made now?

The key decision from the trustee perspective is about what pension arrangements the employer wants to use to implement auto-enrolment. However, the employer has to make that choice on the basis of wider factors about its workforce profile and overall strategy: it’s not a trustee decision.

1. Who is eligible for auto-enrolment?

The duty to auto-enrol workers is widely drawn – it includes apprentices, short- and fixed-term workers, and individuals not normally thought of (or taxed) as employees, such as some contractors and agency workers – working ordinarily in Great Britain, aged between 22 and State pension age, earning more than GBP9,440.* Other workers can also opt in. The employer may need to look carefully at eligibility in relation to any independent contractors, casual staff or workers employed on zero hours contracts or on multiple contracts with the same employer. Carrying out an audit of the workforce to determine which workers will be covered by the duties is an important first step for each employer.

*Figures quoted are correct as at 6 April 2013 and are subject to annual review
2. What will it cost?

Armed with information about the workforce, and about rates of take-up of the current pension offer, the employer can then work out the potential cost impact of auto-enrolment. From the scheme’s perspective, you will also be able to assess the potential increase in membership and its consequential costs. For example, is there likely to be an upturn in short-term memberships, and how might this impact on your administration costs? Is the membership profile likely to change to the extent that the cost of insuring any risk benefits might also be affected?

3. Structuring auto-enrolment arrangements

This is a key area where you can assist the employer with its planning: is your scheme already in good shape for auto-enrolment? You can get further details about the quality standards for defined benefit and money purchase schemes from notes 4 and 5 in this series. This will help you to start assessing whether your scheme will satisfy the requirements to be a qualifying scheme for auto-enrolment purposes, or whether amendments will be required if the employer wants to use the scheme as part of its auto-enrolment arrangements. Pension arrangements for both existing members and other workers must meet the quality standards, so you need to check:

– whether the scheme meets the quality requirements for existing members (for example, in terms of minimum contribution requirements); and

– whether it can also be used as an auto-enrolment scheme for new members (for example, is the eligibility rule wide enough? Are members currently required to complete an application form? Is a suitable default fund in place?).

If changes are needed, for example to contribution rates, this might trigger a requirement to consult with members about amendments to the scheme – you will need to build this into your implementation timetable.

Remember that if your existing scheme doesn’t meet the minimum standards, then current members would have to be auto-enrolled into a different qualifying scheme or section. They might wish to opt out of that arrangement and retain scheme membership on the current terms: this is possible, but raises some tricky logistical issues. You also need to consider the impact of changes to the membership profile of the existing arrangement.

4. Consequential matters

There is a very heavy HR/administration burden under the new regime which also needs to be planned for.

What processes need to be put in place to ensure that the right notices are issued, at the right times, to the right workers? Most of these will be the employer’s responsibility, but as trustees you also need to consider the impact of new enrolment and other processes. Do you have capacity to enrol the anticipated numbers of new members within the one-month deadline allowed? How will you ensure that opt-out forms are supplied and acted on promptly, and how will you and the employer deal with any contributions which have been made before a member decides to opt out? Will your default fund still be appropriate if the membership profile changes significantly? Detailed records will need to be kept of auto-enrolment dates, opt-outs and so on. Changes to administration and payroll systems, as well as service level agreements, may be required, and you may need to update the members’ booklet and other communications.

How we can help

The Allen & Overy Pensions team has all the information employers, HR and pensions departments and pension scheme trustees need to keep on top of all aspects of implementing the auto-enrolment regime. We can help you assess your options and reach the outcome that’s right for you, as efficiently as possible. This is one of our series of guides to the new regime: to receive other guides or find out more, please speak to one of our Pensions partners or to your usual Allen & Overy contact.

Auto-enrolment

To find out more, contact us via email at:
autoenrol@allenovery.com

This document is for general guidance only and does not constitute definitive advice.