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A million challenges ahead
2012 ACA Smaller Firms' Pensions Survey Report

Survey conducted by the Association of Consulting Actuaries

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Chairman's Introduction: 2012 ACA Smaller Firms Pensions Survey

It has seemed a long wait, but this month has seen the commencement of the staging timetable whereby, by 2018, all firms in the country will have auto-enrolled employees into a workplace pension scheme of (or bettering) a minimum standard. The ACA has welcomed this bold cross-party supported initiative. The gloomy figures of dwindling private sector pensions that culminated in the most recent ONS figures has underscored the need to do something radical to extend pension provision to millions of employees, many of whom are unprepared in financial terms for lengthening periods in retirement.

Today, only around 24% of private sector employers of all sizes offer workplace pension schemes. In the largest grouping within the small and medium-sized (SMEs) sector covered by this survey, this falls to around 15%.

We conduct this survey of pension trends in businesses employing 250 or fewer people every second year and this year its theme is '*A million challenges ahead*'. Without being alarmist, this reflects the stark fact that over the next 5 years or so, over 1 million SMEs will have to meet the auto-enrolment challenge – a million employers, three-quarters of which have 4 or fewer employees. Yes, it is right that pension provision should be available to employees in even the smallest firms, but we do question whether the rules are overly complex for businesses of this size and whether the strains of the staging timetable by 2015/18 look too rigorous. We also wonder whether the pensions industry has fully taken on board how it will market appropriate pension schemes to so many SMEs, the vast majority of which have no provision in place at all at present.

One possibility might be the establishment of an approved panel of advisers who are geared up to provide cost effective advice on auto-enrolment to SMEs.

Our expectation at the moment is that NEST will enrol fewer employees than was originally thought from larger employers early on, largely because of the competition from some other multi-employer schemes and restrictions placed on NEST, but it may well enrol a high percentage of the very small employers later on in 2015/18. The challenges for NEST then could be particularly acute given the number of employers who may 'sign up' at much the same time. That said, our survey suggests the majority of SMEs still remain blissfully unaware of the auto-enrolment timetable, the regulatory regime and guidance and – more alarming still – the budgetary planning needed to identify the extra costs that most will face.

Let us also hope the economic situation and the public's perception of the benefits of pension savings will improve during the staging period, otherwise the feedback from our survey suggests that concerns over both cost and disillusionment with pensions may prompt high opt-out rates.

Many employers even in the SME sector do not feel their employees should be exposed to 100% of pension risks. Reflecting this, employers need to consider if and how they can help to share risks with employees. And Government, by removing legislative constraints, as well as those of us in the pensions industry must play our part by making sure pension designs offer effective governance, at a scale allowing members to benefit from good value and with options that mean both employers and employees have confidence in the schemes that are used and a feeling of greater certainty that the pension outcomes will be worthwhile.

Finally, I would like to thank all those firms that responded to the survey questionnaire and the time this involved.

Andrew Vaughan
Chairman
Association of Consulting Actuaries

Key findings

This biennial survey was conducted by the Association of Consulting Actuaries (ACA) in July/August 2012 for online completion by 4 August 2012 and was broadcast to 20,000 of the UK's smaller firms with 250 or fewer employees, selected on a random basis. Responses were received from 541 firms. This survey report is part one of the ACA's *2012 Smaller Firms' Pensions Survey* and focuses on general trends in provision updating results from earlier biennial surveys of the sector and, in particular, replies to questions on forthcoming pension reforms including preparations for auto-enrolment.

- **Firms say employees' concerns have increased markedly over the last 2 years over the 'cost' of pensions (up 10 points on 2 years ago), a 'preference to spend' (up 16 points) and 'disillusionment with pensions' (up 11 points). This will have contributed to fewer employees joining (and staying in) workplace schemes.**

- **By 2028, over half the firms expect the typical retirement age from their business to be 68 or older, with a quarter of employees retiring at age 70 or above.**

- **Only 28% of these smaller firms have budgeted to date for the cost of auto-enrolment with this based on employee opt-out rates ranging in the main between 11 – 35%, with the highest opt-out rates expected in the smallest firms.**

- **Of those firms with a current pension scheme, a half are likely to auto-enrol all employees into an existing scheme – although many more are unsure compared to 2 years ago (27% as opposed to 9%). 1 in 10 will consider auto-enrolling into a new workplace scheme with a further one in ten restricting entry and placing the balance of employees in NEST. Only 4% will close their existing scheme and place all employees in NEST.**

- **Over 4 out of 10 firms who presently offer no pension scheme remain unsure about what they will do when they auto-enrol employees into pensions. 38% expect to auto-enrol all employees into NEST, with 19% looking to enrol into an employer's scheme.**

- **Fewer than 1 in 5 firms are aware of the detail of the auto-enrolment regulatory regime, guidance and employers' duties. Of those that are aware of the regime, 53% say it is 'complex' and 23% 'very complex'.**

- **Broadly only a third of firms say individuals should shoulder all of the 'investment', 'longevity' and 'inflation' risks associated with pensions. Around four out of ten firms say employers should share or take on the majority of these risks.**

Executive Summary

Pensions in smaller firms: today

- **The survey is of firms with 250 or fewer employees – over 99% of UK private sector employers fall into this grouping of some 1.2 million businesses.**

- **The dominant types of scheme provided by respondents are Group Personal Pensions, Stakeholder and trust based defined contribution schemes. Where final salary schemes are provided, 91% are now closed to new entrants (up 5 points on 2 years ago) and of these 43% are also now closed to future accrual (up 2 points on 2 years ago).**

- **Across most types of schemes, membership participation is below 60% and is generally down on levels reported two years ago.**

- **Firms say the principal reasons why employees do not join existing schemes are 'cost' (94% - up 10 points on 2 years ago), a 'preference to spend' (88% - up 16 points on 2 years ago), 'disillusionment with pensions' (80% - up 11 points on 2 years ago) and 'lack of interest' (47% - up 7 points on 2 years ago).**

- **Over the last 3 years, 8% of firms say the number of employees leaving schemes has 'increased significantly' with 21% reporting 'marginal' reductions. Set against this, 14% of employers report higher levels of scheme membership.**

- **Firms not providing pensions say they do not do so principally because of 'cost' (96% - no change on 2 years ago), 'economic conditions in their sector' (78% - down 4 points on 2 years ago) and 'insufficient competitive pressures' (71% - up 18 points on 2 years ago).**

- **A quarter of firms say they will be reviewing their pension arrangements in the next year, with a further 30% set to review schemes, but over a year away.**

- **Whilst four out of ten smaller firms say they have no target as to what their pension costs are (unchanged from 2 years ago), it is encouraging that 37% are targeting employer pension costs of 4% of payroll or more.**

- **10% of smaller firms (down 11 points on 2 years ago) are looking to decrease their pension spend, balanced by 9% aiming to increase spend (down 5 points on 2 years ago).**

- **Whilst at present firms report nine out of ten (male) employees are retiring at age 65 or younger, by 2020 two-thirds expect employees (both men and women) typically to retire at age 67 or above. By 2028, over a half expect the typical retirement age to be age 68 or older, with over a quarter retiring at age 70 or above.**

Executive Summary continued...

Auto-enrolment: how are smaller firms shaping up for tomorrow?

- **Only 5% of firms in the sample presently auto-enrol employees into a workplace scheme.**
- **Given the lengthy period before many firms auto-enrol their employees under the staging timetable, it is perhaps unsurprising that close to two-thirds of these smaller employers (three-quarters of the smallest) have not checked whether their existing schemes comply with the minimum standard to be a qualifying scheme under the auto-enrolment regulations. Where employers have checked, over 40% have found that their schemes will need to be amended to fully comply with the qualifying standards.**
- **Only 28% of smaller firms (up 7 points on 2 years ago) have to date budgeted for the likely cost of auto-enrolment. 40% say the introduction of auto-enrolment will 'significantly' add to their business costs (down 15 points on 2 years ago).**
- **Of those businesses that have budgeted for extra costs, this has been based on opt-out rates ranging in the main between 11-35% of employees, with the highest estimated opt-out rates in the smallest firms.**
- **Of those firms with an existing pension scheme, a half are likely to auto-enrol all employees into existing schemes (down 12 points on 2 years ago), with many more unsure of their policy than was the case two years ago (27% as opposed to 9%).**
- **One in ten of these firms say they are likely to auto-enrol employees into a new domestic scheme (11%) and a further 12% say they may restrict entry into their existing scheme, with the balance of employees being auto-enrolled in NEST. Some 5% are likely to use NEST as a foundation scheme.**
- **Only 4% say they are likely to close their existing scheme and auto-enrol all employees into NEST (down 16 points on 2 years ago).**
- **Over 4 out of 10 firms who presently offer no pension scheme remain unsure about what they will do when auto-enrolment arrives. Some 38% expect to auto-enrol all their employees into NEST, with 19% opting for an employer's scheme.**
- **23% of these smaller firms (down 6 points on a year ago) are 'likely' to review their existing scheme(s) benefits to mitigate the cost of auto-enrolling additional employees, with 29% remaining unsure about what they may do.**
- **Over eight out of ten of SMEs (82%) are unaware of the detail of the regulatory regime for auto-enrolment. Of those that are aware of the regime, 53% say it appears 'complex' and a further 23% think it is 'very complex'.**
- **Only 7% of these smaller firms have examined the auto-enrolment guidance produced by the TPR in full – principally the larger firms within the group. However, to date 62% have not examined the guidance at all and a further 21% do not intend to, deferring to the assistance of advisers to do this.**
- **Those advisers that firms will principally rely upon for auto-enrolment are IFAs (31%), specialist pension consultants (29%), administrators (16%) and accountants (11%).**

- **A majority of these smaller firms say they would have preferred the implementation of auto-enrolment to be delayed until consistent economic growth returns (57%) and there are general increases in real incomes (58%)**. **Only 37% of firms said that auto-enrolment should await legislation that allows greater freedom in pension design**.

Views on other pension reforms

- **Three-quarters of firms (73%) favour a requirement that, on leaving a job, employees transfer their accumulated fund into a central pot identified by the individual.**
- **Firms are divided evenly on whether the State Pension Age in the future should be automatically adjusted to reflect general improvements in longevity (49%) or whether this should be left to an independent non-governmental body (51%) to make recommendations. Close to four out of ten say individuals should have the option to pay a higher rate of NI to secure an earlier BSP, whereas the majority say individuals should make higher private pension savings to secure an earlier retirement.**
- **61% of firms said that private schemes should be given a statutory override to enable them to adjust pension age for future service only (27%) or for both future and accrued pensions (34%). 55% of firms said the changes should mirror movements in the SPA, with 36% favouring the recommendations of a standing commission that monitors improvements in longevity.**
- **Broadly only a third of firms say individuals should shoulder all of the 'investment', 'longevity' and 'inflation' risks associated with pensions. Around four out of ten firms say employers should share or take on the majority of these risks.**

Facts and figures: smaller firms' place in the UK economy

The small and medium-sized (SME) firms sector, here defined as businesses employing 250 or fewer employees, is the largest part of the UK private sector economy in terms of employment. These smaller firms employ over half of the UK's private sector employees (58.8%) and generate just short of a half (48.8%) of all private sector turnover, amounting to some £1,500 billion per year. They make up over 99% of all UK private sector enterprises. The number of these SMEs has increased by 31% over the last decade, whereas there are only just over 6,300 UK private sector enterprises that now employ 250 or more employees compared to 7,200 a decade ago (-12%).

Whilst figures vary from year to year, within this SME sector there are around 1.2 million businesses that employ at least 1 employee, the majority being companies (742,000), but also including employees of partnerships (157,000) and of sole proprietors (279,000). In a typical year, the number of employing businesses ceasing and forming can be around 25 - 35,000. Only a minority of SME employers (fewer than 25%) provide any form of workplace pension.

The major test for those responsible for monitoring compliance with the auto-enrolment regime will be to capture data on these 1.2 million firms (the vast majority with fewer than 5 employees), whilst also being able to cope with the dynamic changes in business numbers each year. For those bodies 'providing' qualifying schemes there are other challenges including monitoring employee earnings, movements of employees from firm to firm, changes in opt out decisions, re-enrolment every 3 years, payments of contributions and plenty more. This will be an extremely challenging task for many small employers, the regulator and pension providers with an exacting timetable under the auto-enrolment staging timetable for smaller firms commencing in April 2014.

Figure 1: UK private sector: number of enterprises and employment by size of firms

UK Smaller private sector firms	Number of enterprises	Employees (thousands)	Average number of employees per enterprise
No employees (see note below)	3,364,020	511[1]	-
1 employee only	169,635	170[2]	1
2-4 employees	580,475	1,525	3
5-49 employees	391,840	4,808	12
50-249 employees	30,475	2,943	97
Total: smaller firms (1-249 employees)	**1,172,425**	**9,446**	**8**

(**Source**: Dept of Business Innovation and Skills, Business Population Estimates, 2011 figures, published 12 October 2011)

Note: 'No employees' comprises sole proprietorships and partnerships comprising only the self-employed owner-manager and companies comprising only an employee director

[1] Excluding around 3 million working proprietors not working under a contract of employment

[2] Excluding working proprietors in all categories below not working under a contract of employment

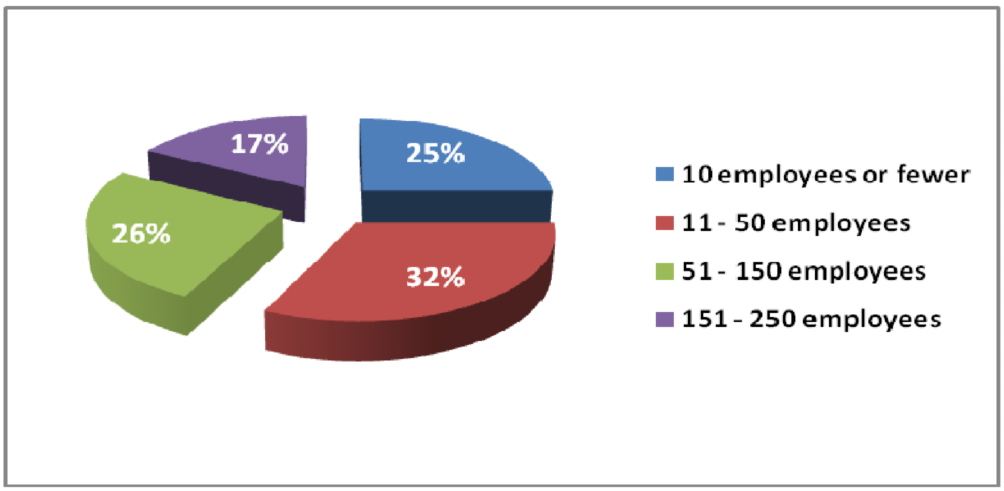
Section 1 – Pensions in smaller firms today

Survey respondents

Just under six out of ten of the smaller firms responding to the survey employ 50 or fewer staff, with the balance of respondents employing between 51 and 250 employees. This sample does not represent a 'mirror image' of the UK's smaller firms sector. If it did, around 97% of the sample would be drawn from firms with 50 or fewer employees[3].

Equally, with only 22% of respondents indicating they do not run a pension scheme, the sample over-represents the proportion of smaller firms offering pension arrangements. **Around 75% of the UK's smaller firms provide no workplace pension scheme albeit it is estimated around a further 7% make contributions into employees' personal pensions**[4]. The DWP's *Employer Pensions Provision Survey* notes only 15% of employers that have fewer than 5 employees presently offer a pension – over ¾ million employers –.

Figure 2: Smaller firms - organisations responding to the survey



(Source: ACA 2012 Smaller Firms Survey, Table 1, page 28)

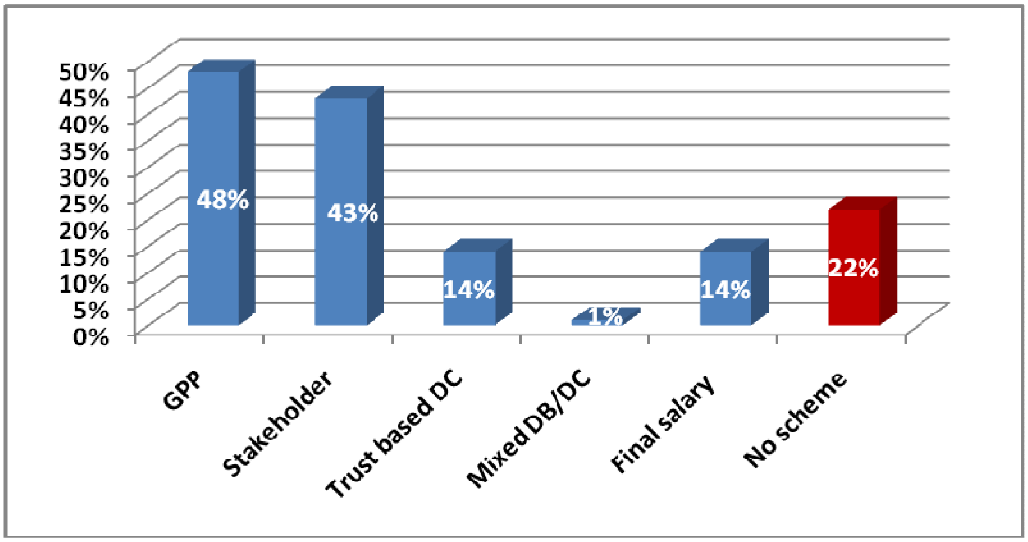
[3] **Source**: BIS Business Population Estimates 2011

[4] **Source**: DWP Research Report *Employers' Pension Provision Survey 2011*

Types of schemes run by smaller firms

As this survey is of smaller employers, the dominant types of schemes being run by respondents are defined contribution in nature, with Group Personal Pension Schemes (GPPs) and Stakeholder schemes the most common.

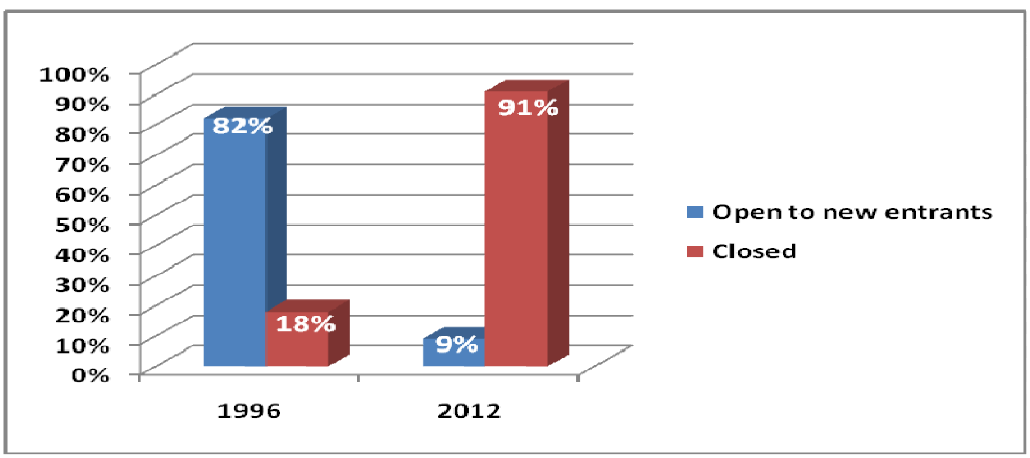
Figure 3: Smaller firms - schemes in survey: by type



(Source: ACA 2012 Smaller Firms Survey, Table 2, page 28)

Of the defined benefit final salary schemes offered by these smaller employers, 91% are reported to be closed to new entrants and, of these, 43% are now also closed to future accrual by existing employees. When this series of biennial surveys into pension scheme trends in smaller firms began in 1996, 82% of defined benefit schemes in smaller firms were open to new entrants – a situation that has totally turned around in just 16 years.

Figure 4: Smaller Firms – defined benefit scheme closures 1996 – 2012



(Source: ACA 1996 and 2012 Smaller Firms Survey, Table 2, page 28)

Reflecting the move away from trust-based in favour of contract-based defined contribution schemes, 45% of trust based schemes are reported as closed to new entrants, of which 28% are also closed to new contributions from existing employees. The majority of firms that previously provided a trust-based scheme now offer either GPPs or Stakeholder schemes.

Average scheme membership

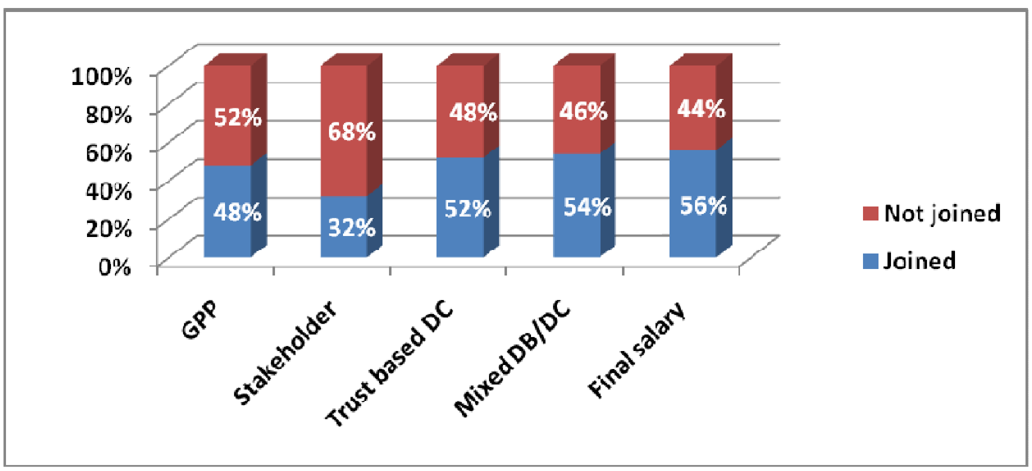
Of those eligible to join workplace pension schemes in these smaller firms, average participation rates vary between 32% in Stakeholder schemes (with members) through to 56% in Final Salary schemes.

Across this sample, generally over 45% of employees are not in membership of workplace schemes (with this rising to 100% for the 22% of respondents who provide no scheme).

Membership of both GPPs and Stakeholders, which presently predominate in the SME sector, on average falls below 50% of firms' employees – often well below in individual businesses.

There are clear implications in cost terms for SMEs when they have to auto-enrol employees into either existing 'qualifying' schemes or new auto-enrolment schemes under the staging and phasing schedule between, for these sized firms, 2014 and 2018. The degree of cost increases will hinge upon current participation rates, the level of opt-outs following auto-enrolment and the levels of employer contributions into the future for both existing and new members.

Figure 5: Smaller firms - scheme membership



(Source: ACA 2012 Smaller Firms Survey, Table 2, page 28)

Why are so many employees in smaller firms not in pension schemes?

In our survey of smaller firms two years ago we found some 9 out of 10 these smaller firms wished to make adequate pension arrangements for their retirees, with a majority also seeing the good sense in providing such a scheme to convey a positive image to both existing and prospective employees.

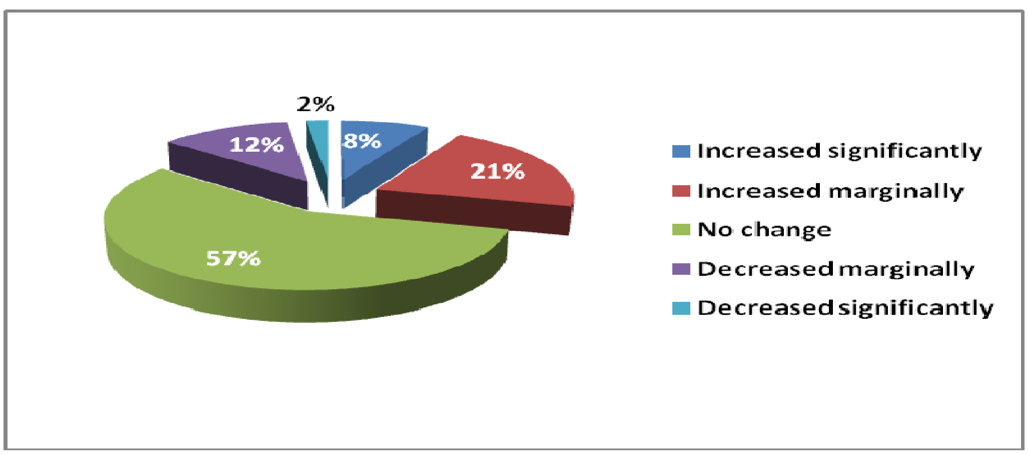
However, although this survey focuses primarily on smaller firms who provide a pension arrangement, it needs to be remembered that over 75% of SMEs as a whole, across the economy, currently offer no workplace pension at all. We explore below why this is the case.

Firms are very clear on why they feel so many employees have not joined existing workplace pension schemes. 94% of firms say employees 'cannot afford the cost' (up 10 points on 2 years ago). Many – 88% (up 16 points on 2 years ago) – say employees have a 'preference to spend'. Whilst amongst lower income groups, ONS figures suggest there is little or no room for private savings given current spending patterns and credit commitments, it is less clear this is the case for those around and above average earnings.

A worrying finding is that 80% of firms believe employees are 'disillusioned with pensions' (up 11 points on 2 years ago), no doubt in the wake of trends over the last decade. Disappointing growth in pension pots as investment returns have reduced, low annuity rates and, for some, experiences of scheme closures and levelling-down will all have played a part in this situation. The prospect of later retirement ages may also be deterring younger employees from pension saving – other earlier spending priorities appear much more relevant. This is a situation with some way to run with many younger employees in their 20s and 30s likely to have much larger post-university debts to clear in the years ahead as well as mortgage commitments or high ongoing rents running until later years.

The survey found that whilst 8% of these smaller employers have seen a 'significant' increase in the proportion of existing employees leaving schemes over the last 3 years, with 21% reporting 'marginal' reductions, this was only in part re-balanced by 14% of firms saying scheme membership had increased over the period.

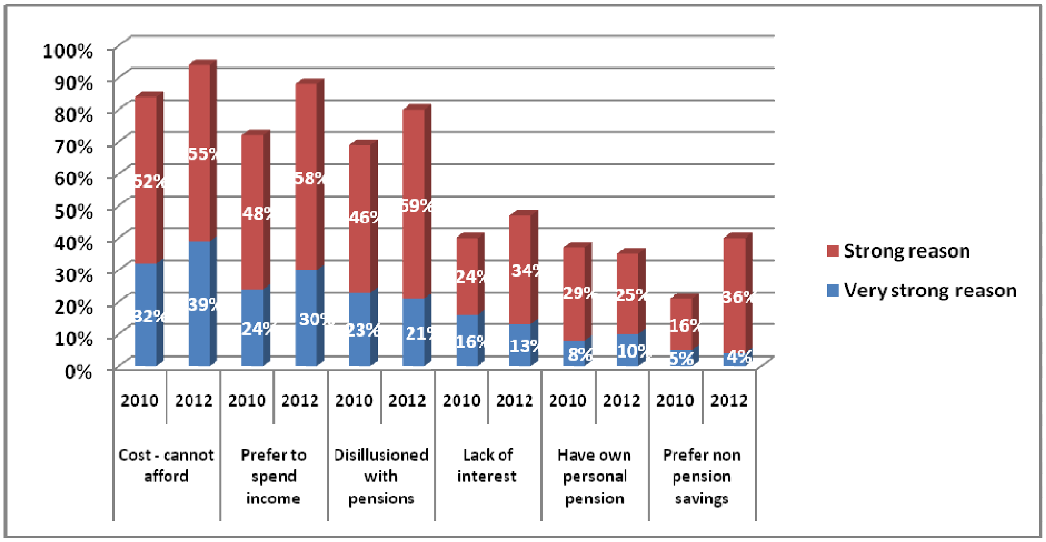
Figure 6: Smaller firms with pension schemes – employees leaving scheme membership in the last 3 years



(Source: ACA 2012 Smaller Firms Survey, Table 4, page 29)

These results underscore that whilst auto-enrolment into workplace pension schemes will increase markedly the numbers of employees making pension savings in these smaller firms from 2014, there remain huge financial and communication challenges to be addressed if we are not to see the emergence of high opt-out rates. This is particularly the case in this smaller firms sector where pay, benefits and per head resources for communication generally tend to be lower than in larger private and public sector organisations.

Figure 7: Smaller firms with pension schemes – why do you think employees do not join?



(Source: ACA 2012 Smaller Firms Survey, Table 3, page 29)

Why do so many smaller firms not offer pension arrangements?

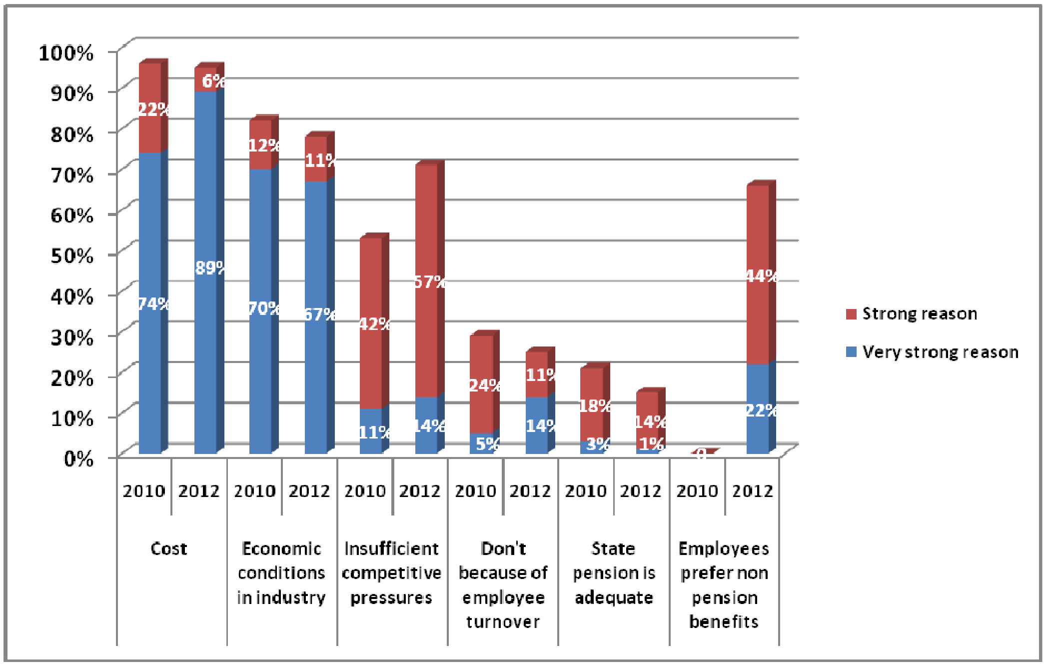
Almost all (96%) of smaller firms responding to the survey, who do not offer pension schemes at present, say this is down to 'cost', reflecting a similar result to that found 2 years ago. However, more this year felt this was a 'very strong reason' (89%, up 15 points on 2 years ago). This view was supported by weak economic conditions in their respective industries.

Also, seven out of ten say that competitive pressures in their business sector do not require at present that they provide pension arrangements. This is presumably a statistic that will move as smaller firms auto-enrol from 2014, particularly as multi-employer schemes, some organised perhaps in industry sectors, may prove one of the most cost-effective and viable arrangements for smaller firms.

A quarter of firms say the high level of staff turnover they experience has provided a further disincentive to providing a workplace scheme.

Compared to two years ago, fewer firms say that they feel the State pension is 'adequate' to meet the retirement needs of employees (down 6 points to 15%). This may reflect an anticipation of the consolidated higher Basic State Pension (BSP) as announced by the current government or a wider perception that the BSP is not keeping up with pensioner needs.

Figure 8: Smaller firms with no pension scheme or employer contribution – why is this?



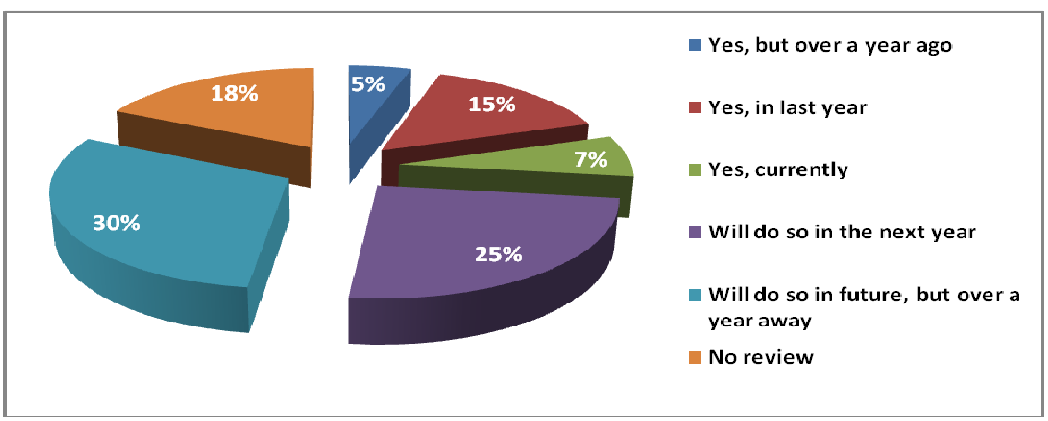
(Source: ACA 2012 Smaller Firms Survey, Table 5, page 29)

Scheme reviews

A quarter of smaller employers are set to review their pension arrangements in the next year, with a further 30% seeing this as a task they will undertake at a later date (which given the extended staging period for some small firms is understandable).

The number looking to undertake reviews in the next 12 months suggests that the auto-enrolment reforms are beginning to be noticed, with early actions now being considered. Although smaller firms have more time to consider how they should react to the reforms, it seems likely given other survey findings that the staging and phasing message has not been fully appreciated, with many of the smallest businesses – upwards of a quarter – saying they have no plans at all to review their pension arrangements.

Figure 9: Smaller firms: have you or are you about to review your pension arrangements?

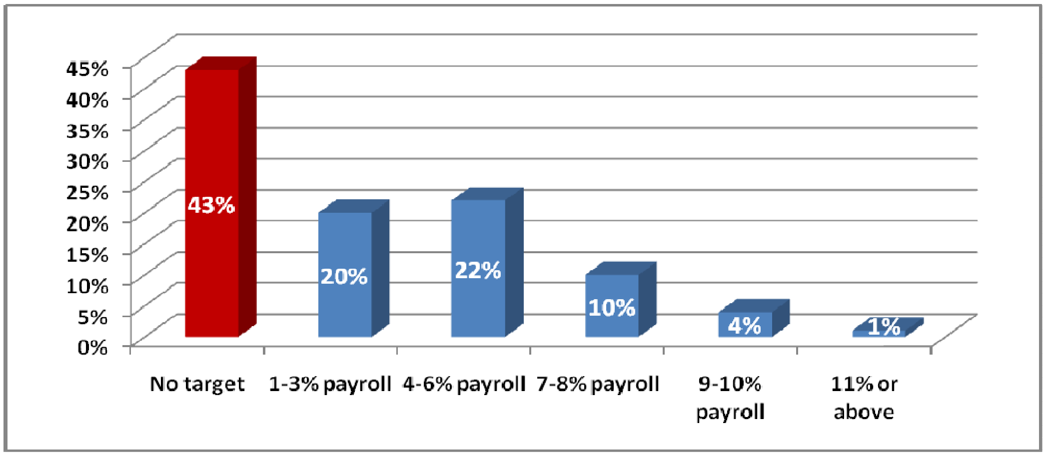


(Source: ACA 2012 Smaller Firms Survey, Table 6, page 30)

Targets for pension spend

Whilst four out of ten smaller firms say they have no target as to what their pension costs are (unchanged from 2 years ago), it is encouraging that 37% are targeting employer pension costs of 4% of payroll or more (i.e. broadly in excess of the minimum employer contribution levels that will come into full force from 2018 for employees in membership of auto-enrolment schemes). The concern is that those saying 'no target' is made up of those firms who presently make no workplace provision or where employer contributions may presently be around the minimum of 3% of earnings (but where the earnings definition may be somewhat narrower than the auto-enrolment regulations specify).

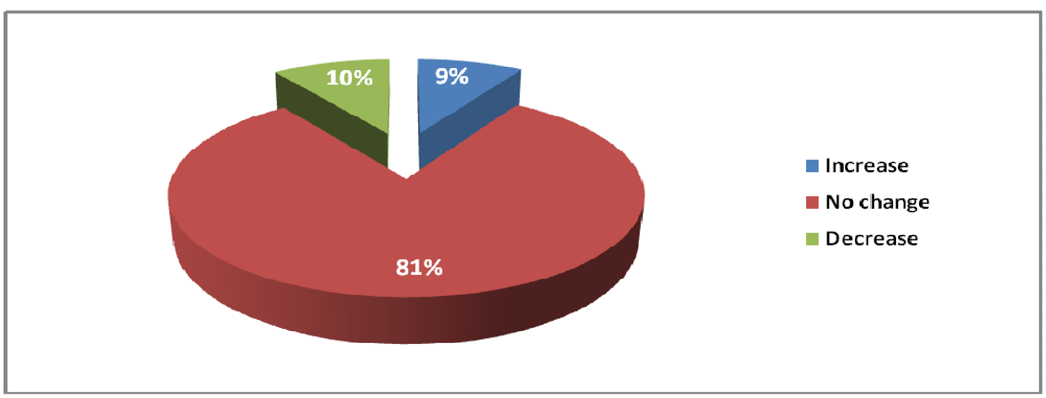
Figure 10: Smaller firms: do you have a target as to what your business will spend on pensions as a percentage of payroll?



(Source: ACA 2012 Smaller Firms Survey, Table 7, page 30)

However, given the difficult economic times many businesses are experiencing, it is relatively 'good news' that those looking to reduce pension spend are balanced by those looking to increase spend, with the majority holding to their current spend on pensions. It is noteworthy that at the very smallest end, those with 10 or fewer employees, there appears to be the beginnings of an ambition to spend more.

Figure 11: Smaller firms: overall, is your business trying to increase or decrease its spend on pensions?



(Source: ACA 2012 Smaller Firms Survey, Table 8, page 30)

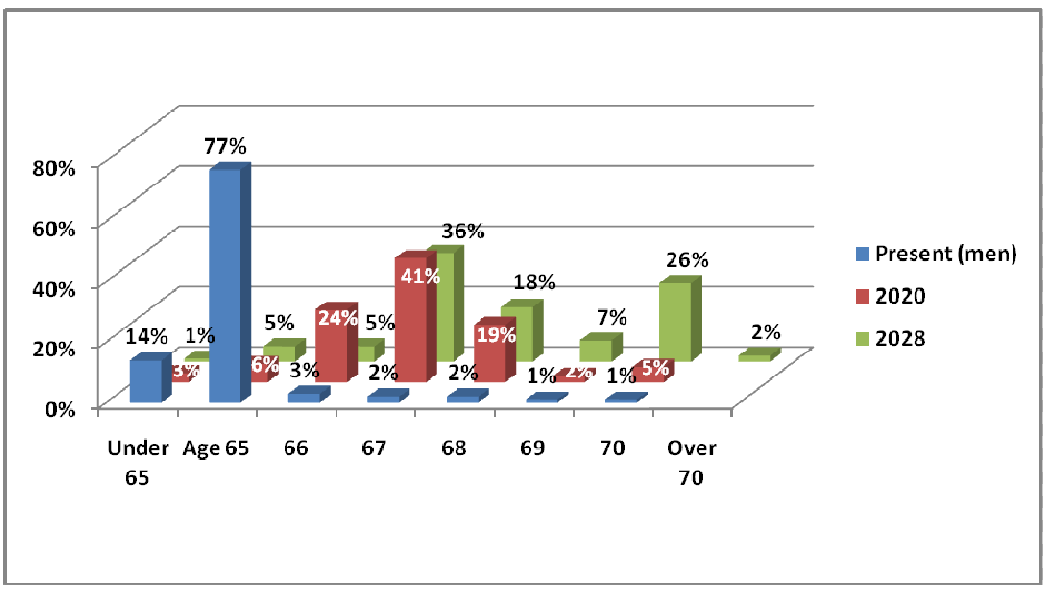
Changes in typical retirement ages 2012-2028

This year we asked firms about what changes they expected in the typical retirement age from their business. Whilst at present nine out of ten firms said (male) employees typically retired at age 65 or below, **by 2020 two-thirds expected this to have increased to age 67 or above – a marked change in the eight year period ahead.**

However, by 2028 the change was expected to be even more dramatic. By then, over half of the firms expect the typical retirement age to be 68 or older, with over a quarter of employees retiring at age 70 or above.

If these projections are in any way correct, then the expectation would appear to be that retirement ages will move upwards at a faster rate than the State Pension Age, meaning more private sector employees in these smaller firms in their later years will be supplementing their BSP by way of continued working – perhaps part-time. Maybe more will also consider the deferral option available with BSP, to achieve a higher State pension in later years or a lump sum. Whilst opinions remain mixed as to whether this trend will impact adversely on the employment of younger people, the importance of smaller firms as the powerhouse in generating new jobs means this is an area of public policy that may need to be examined in more detail as trends emerge.

Figure 12: Smaller firms: expected typical retirement ages at present and by 2020 and 2028



(Source: ACA 2012 Smaller Firms Survey, Table 9, page 31)

Section 2 - Auto-enrolment: how are smaller firms shaping up for tomorrow?

The staging timetable for smaller firms

For smaller firms, auto-enrolment remains some way away. A summary of the dates SMEs of different sizes will have to act by is as follows:

- 50 to 249 employees: between 1 April 2014 to 1 April 2015 (upwards of 40,000 firms)
- 30 to 49 employees inc some smaller firms: between 1 June 2015 to 1 October 2015 (upwards of 36,000 firms)
- Fewer than 30 employees: 1 June 2015 to 1 April 2017 (upwards of 1 million firms)
- New employers[5]: 1 May 2017 to 1 February 2018 (maybe upwards of c500,000 firms)
- There is an option to delay staging dates from the above for some smaller employers[6]

Whilst this means even the larger SMEs still have a year and a half to auto-enrol, it is widely expected that the preparations for this take many months of advance planning – those businesses in doubt should consult the summaries and guidance available on the Pension Regulator's website (www.tpr.gov.uk). **Only 5% of these smaller firms presently operate any auto-enrolment into schemes they run, either on joining or shortly thereafter**. In some cases, this auto-enrolment may be reserved for small sections of employees covered by pension arrangements within firms.

A half of smaller firms say they are aware of the date between April 2014 and 2017 when they must auto-enrol eligible jobholders into an auto-enrolment scheme – a firm's existing or new scheme, or a multi-employer scheme, or NEST (which uniquely has a public service obligation to accept all employers who do not want to use a firm's or other multi-employer scheme).

In October 2012, the largest employers began auto-enrolment with some having started earlier on a voluntary basis. Firms responding to this survey will have to auto-enrol from April 2014 onwards through to 2018. The optional transitional period for employers that wish to use schemes that meet the defined benefits or hybrid schemes' quality test runs from 1 July 2012 to 30 September 2017.

The challenging period for those running and monitoring auto-enrolment will be in the period from April 2014. Over a 12-month period, some 40,000 enterprises with between 50 and 249 employees will be expected to begin auto-enrolment (unless they already do so). And then, the even bigger task – between June 2015 and April 2017, when over 1 million enterprises with fewer than 50 employees will be required to introduce auto-enrolment.

Whilst the expectations must be that auto-enrolment will be applied by larger employers from this month with some success and, as a result, a much-needed boost will be given to pension coverage, it is clear that considerable concerns remain about the complexity of the detail of the auto-enrolment rules. It is to be hoped that the experiences of larger employers will enable DWP and the Pensions Regulator to iron out most of the problems,

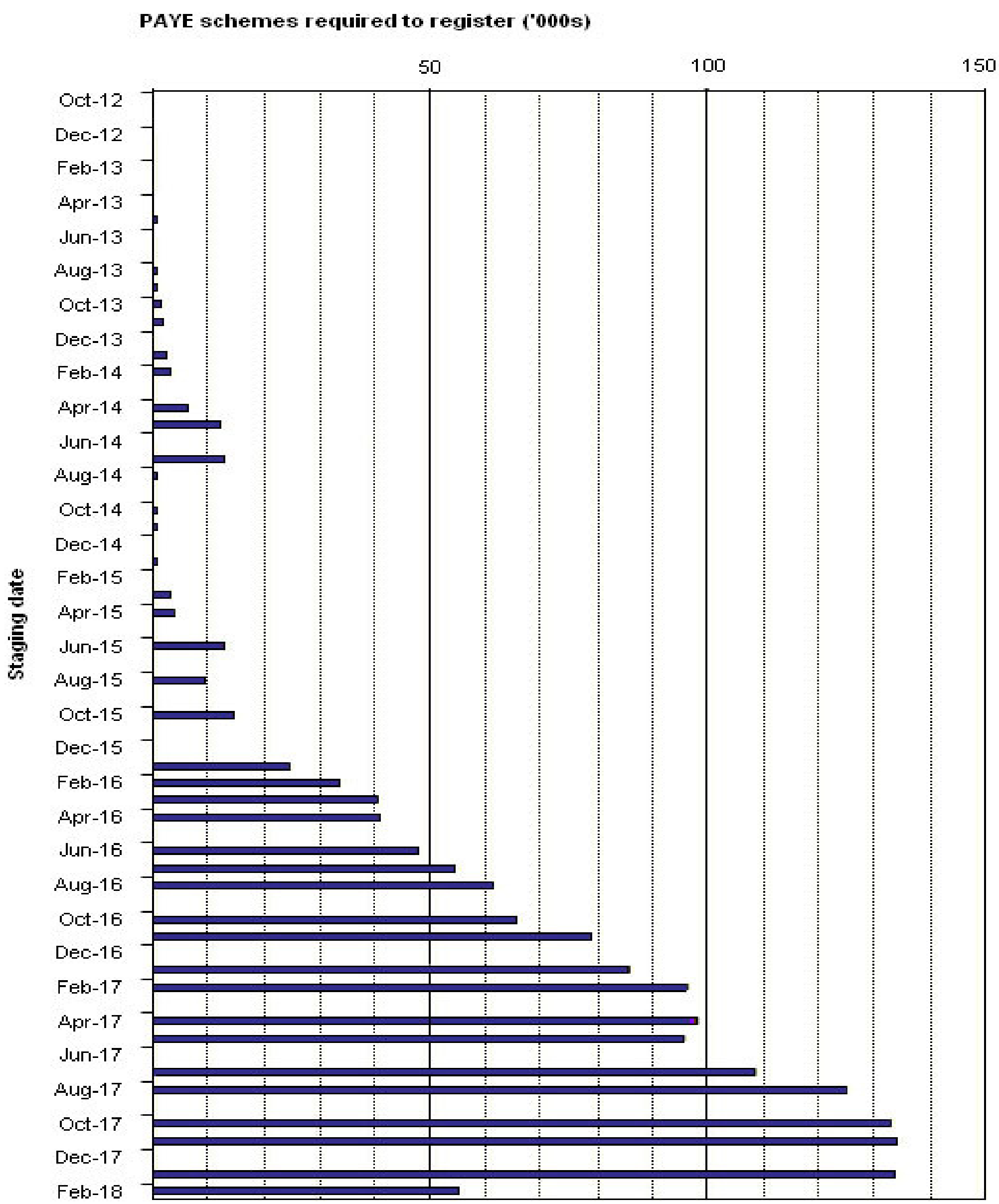
[5] New employers with PAYE scheme set up after April 2012 – September 2017

[6] Firms with fewer than 50 employees that are part of PAYE schemes with 50 or more employees

but the task from 2014 in engaging with over 1 million smaller employers, over three-quarters with 4 employees or less, cannot be under-estimated.

If auto-enrolment is to be effectively implemented down to the smallest one-employee firms, this will require huge resources in terms of manpower, finances and advisory services. With the constraints on public spending inevitably falling on DWP and the Pensions Regulator, there may yet be a need to see some further stretching in staging or even an acceptance that a simpler requirement and/or regulatory regime be applied to micro-employers.

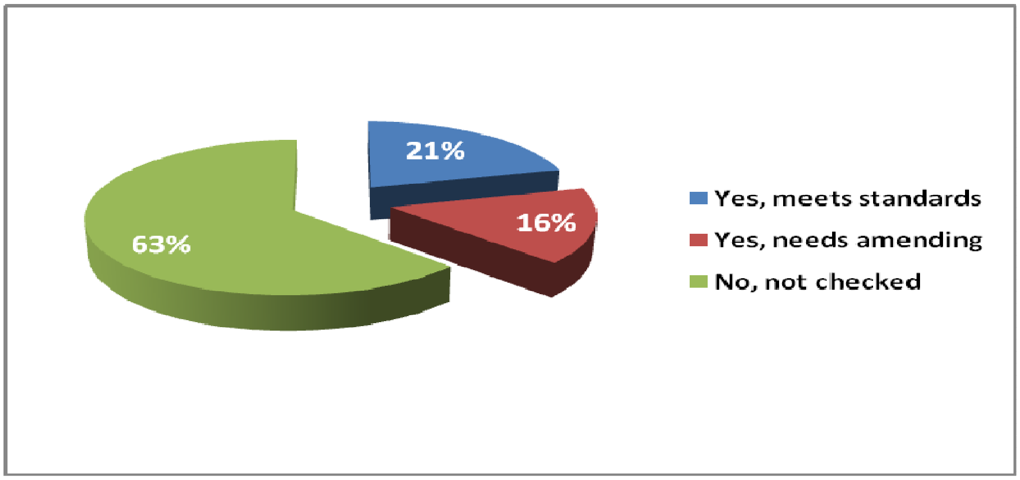
The graph below drawn from the TPR website illustrates the progression of the staging dates from top to bottom, and how many employers via PAYE schemes are required to register (in thousands). This vividly shows how relatively few larger employers need to be registered in the early periods, but by 2016 the TPR will have to be registering upwards of 25,000 employers and by 2017 upwards of 50,000 employers, every month.



Given the lengthy period before many firms auto-enrol their employees under the staging timetable, it is perhaps unsurprising that close to two-thirds of these smaller employers (three-quarters of the smallest) have not checked whether their existing schemes comply with the minimum standard to be a qualifying scheme under the auto-enrolment regulations.

Where employers have checked, over 40% have found that their schemes will need to be amended to fully comply with the qualifying standards.

Figure 13: Smaller firms – have employers checked whether their current pension scheme meets the minimum standards to be a 'qualifying' workplace scheme for auto-enrolment under the legislation?



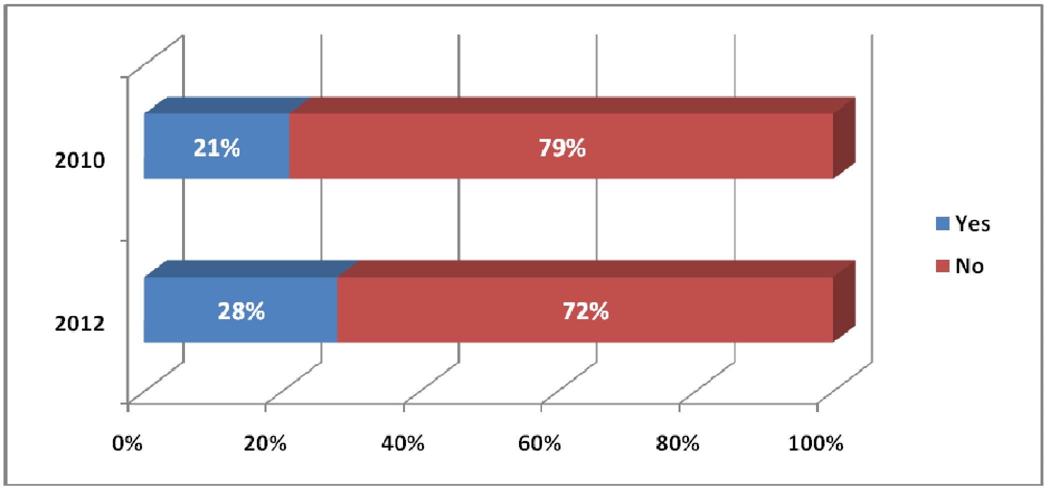
(Source: ACA 2012 Smaller Firms Survey, Table 12, page 32)

Budgeting for auto-enrolment and opt-out forecasts

A minority of respondents (28%) of smaller firms have to date budgeted for the likely increase in costs arising from auto-enrolment (up 7 points on 2 years ago). Given the generally low level of scheme participation in open defined contribution pension arrangements reported here (see *Figure 5*), this is troubling, albeit it is eighteen months to five years before the first compulsory requirement to auto-enrol employees in smaller firms. It may mean many more employers over the next few years will wake up to the potential costs involved and take mitigating actions, leading to an increase in scheme reviews.

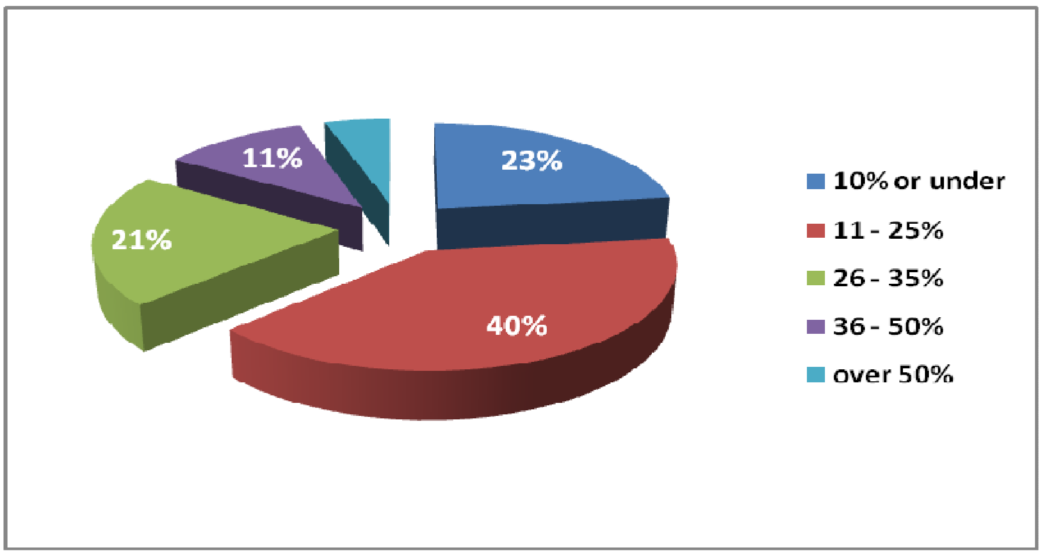
Of those businesses that have budgeted for extra costs, this has been based on opt-out rates ranging in the main between 11-35% of employees, with the highest estimated opt-out rates in the smallest firms. The eventual extra costs of auto-enrolment falling on individual firms will vary hugely. Cost increases will depend not only on whether a firm runs a scheme now or not, but also on current participation rates and the level of opt-outs after auto-enrolment (which may be geared to employee turnover rates or the nature of the jobs involved) and levels of employer contributions for employees not presently in pension schemes.

Figure 14: Smaller Firms - have you budgeted for auto-enrolment?



(Source: ACA 2012 Smaller Firms Survey, Table 13, page 32)

Figure 15: Smaller Firms – what opt-out rates have been assumed in budgeting for auto-enrolment?

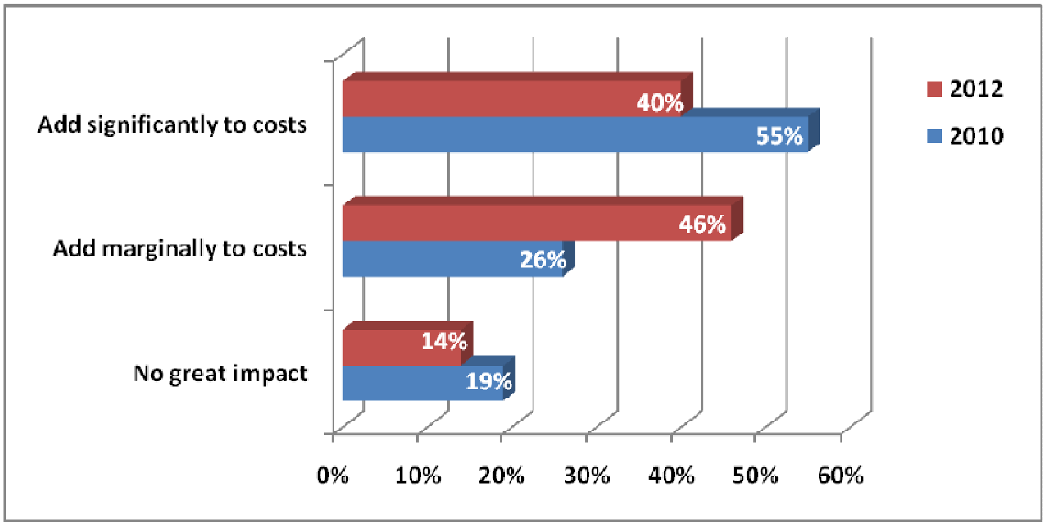


(Source: ACA 2012 Smaller Firms Survey, Table 14, page 32)

Depending on their assumptions on opt-outs and the cost of either enrolling all or extra employees into pensions following auto-enrolment, 40% of firms expect a 'significant' increase in costs and a further 46% only 'marginal' increases.

Compared to two years ago, there has been a 15 point reduction in those expecting a 'significant' increase in costs, which may reflect a better appreciation, particularly amongst larger SMEs, of the detail of the changes involved and the policy options available to them.

Figure 16: Smaller Firms – financial impact of auto-enrolment



(Source: ACA 2012 Smaller Firms Survey, Table 13, page 32)

Pension design response by firms to auto-enrolment

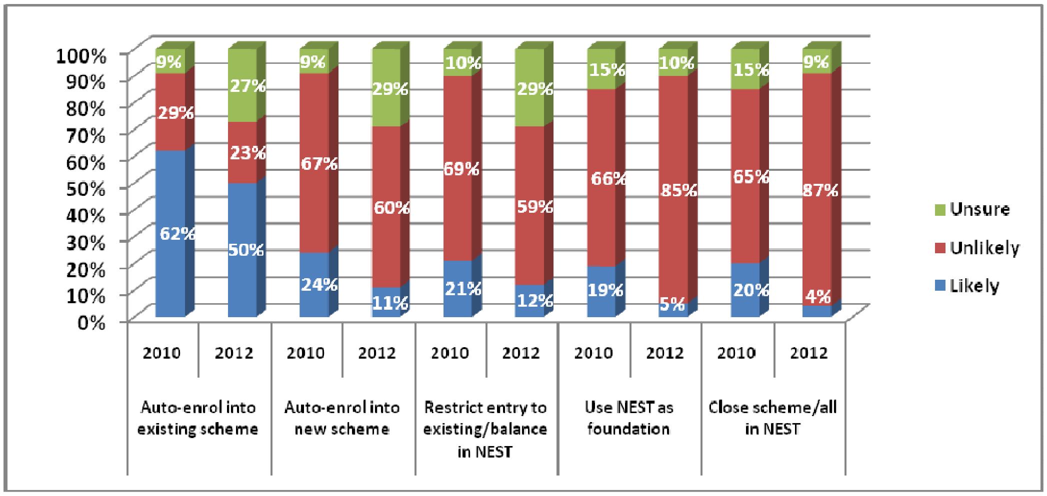
Of those firms with an existing pension scheme, a half are likely to auto-enrol all employees into an existing scheme (down 12 points on 2 years ago), with many more unsure compared to 2 years ago (27% as opposed to 9%). This may in part reflect firms' greater awareness of what is involved two years on, including a realisation that their existing scheme may not pass muster as a qualifying scheme under auto-enrolment regulations.

One in ten say they are likely to auto-enrol all of their employees into a new domestic scheme, suggesting either the closure of an existing more costly (per head) scheme than at present or replacement of an existing scheme that is non compliant in respect of the new regulations. However, again there is more uncertainty about this option than two years ago.

A further 12% say they will restrict entry into their existing schemes, auto-enrolling the balance of employees into NEST whilst **a further 5% are likely to use NEST as a foundation scheme, running a firm's top-up scheme above this**. But again, there is greater uncertainty about the choice – some may, for instance, be favouring using other low cost providers other than NEST.

A big change on two years ago is that far fewer firms are likely to close their existing scheme and auto-enrol all into NEST (4% as opposed to 20%, 2 years ago). Again this may reflect the alternatives now available to NEST or a reduction in the numbers reacting in a 'knee jerk' way to the requirement to auto-enrol.

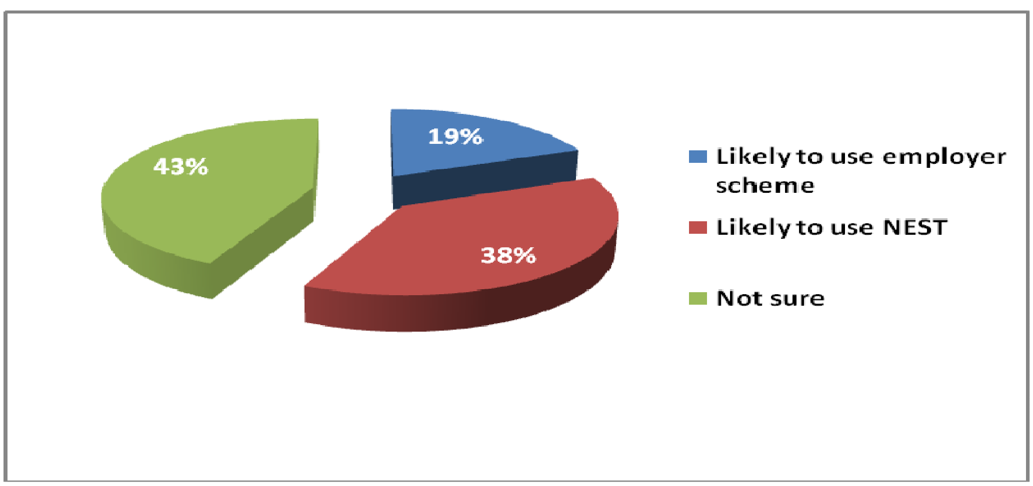
Figure 17: Smaller firms with existing schemes - responses to auto-enrolment



(Source: ACA 2012 Smaller Firms Survey, Table 15, page 33)

Turning to those firms who presently provide no workplace scheme, 43% remain unsure about what they will do, whereas 38% expect to auto-enrol employees into NEST and 19% into an empioyer's scheme. The use of NEST is likely to be most concentrated amongst the smallest firms and when account is also taken of the expected opt-out rates, this points to NEST membership reaching around 2 million just from firms presently providing no scheme at all, albeit this is a very approximate figure at this stage given the level of 'unsures' and could be much higher. On top of this, NEST membership will also be drawn from SMEs who enrol a proportion of their employees in NEST and also larger employers who presently run no scheme for some or all of their employees.

Figure 18: Smaller firms with no pension scheme at present: most likely response to auto-enrolment



(Source: ACA 2012 Smaller Firms Survey, Table 16, page 34)

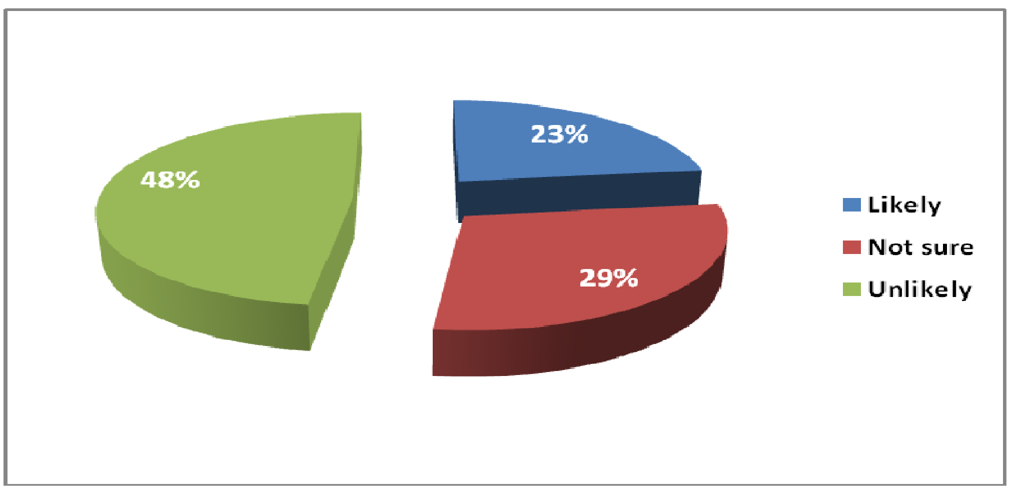
Mitigating the cost of higher scheme membership

Just under a quarter of firms (23%) are likely to review existing scheme benefits/contributions to mitigate the cost of higher scheme membership from auto-enrolment. This is 6 points down on two years ago, reflecting an increase in the numbers of those firms that are 'unsure' about what they will do.

Given the numbers that have so far budgeted for the costs of auto-enrolment (28% - see *Figure 14*), this may be a number that climbs as more organisations identify potential cost increases over the next few years. Given current participation rates in schemes (see *Figure 5*), and the anticipated increases in membership expected from auto-enrolment suggested by this survey, there must continue to be the expectation of some modest levelling-down of contributions, where these are presently higher than the proposed minimum levels applying from 2018. There also may be adjustments to pay and employment levels, or lower pension contribution rates for 'non joiners' and new entrants (which seems a likely outcome according to DWP research)[7] . Much is likely to hinge on the economic situation over the next few years and how this impacts on SME business performance and costs.

However, it is important to stress that levelling-down within smaller firms needs to be seen in context. Whilst this survey predominantly received responses from firms running a pension scheme, across the economy as a whole fewer than around 25% of SME firms run any kind of workplace pension. So, for the vast majority of smaller firms (over 90%) 'levelling-down' is not an issue. For them, pension auto-enrolment costs are a new extra cost that will be met from a number of sources, including reduced profitability, increased prices, better productivity and/or lower employment costs.

Figure 19: Smaller firms with pension schemes: auto-enrolment - will your firm mitigate the cost of higher scheme membership?



(Source: ACA 2012 Smaller Firms Survey, Table 17, page 34)

[7] DWP paper *Employers' Pension Provision Survey 2011*, page 8.

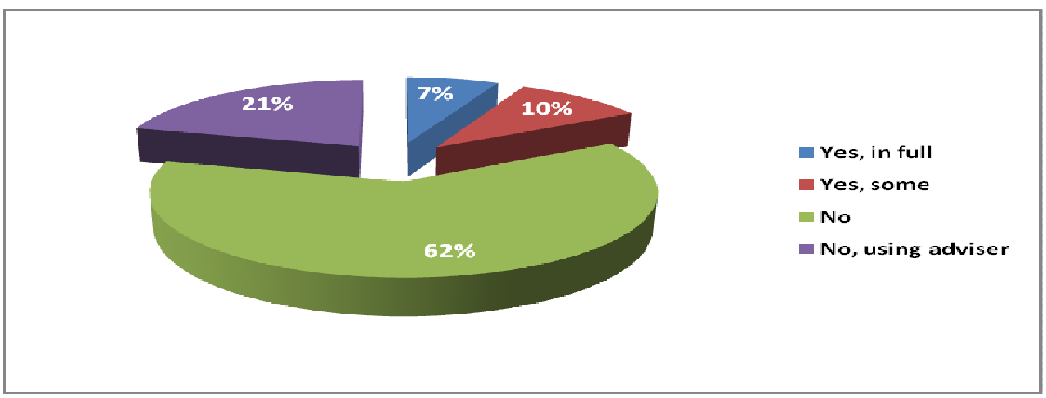
Views on the auto-enrolment regulatory regime

The Pensions Regulator (TPR) has the role to maximise compliance with the new auto-enrolment employer duties, as well as applying safeguards to protect employees who want to save in a pension scheme. TPR is responsible for making employers aware of their duties and how to comply with them, responding to queries, and ultimately monitoring each and every one of the 1.2 million firms' compliance with the auto-enrolment regime, including penalties for non compliance. A full description of the Pension Regulator's *Compliance and enforcement strategy* for employers subject to auto-enrolment is available on their website (www.tpr.gov.uk)

As part of this new role, TPR has produced guidance for employers and advisers on what they need to do to comply with the regulations, which is readily available on the auto-enrolment section of their website. Given their staging dates, **it is perhaps unsurprising that over eight out of ten of SMEs (82%) are unaware of the regulatory regime for auto-enrolment. Of those that are aware of the regime, 53% say it appears 'complex' and a further 23% think it is 'very complex'**[8].

Only 7% of these smaller firms have examined the auto-enrolment guidance produced by the TPR in full – principally the larger firms within the group. However, to date 62% have not examined the guidance at all and a further 21% do not intend to, deferring to the assistance of advisers to do this. It will be interesting to see how the answer to this question changes in two years time. It would be unsurprising if there was not a greater reliance on the support of advisers as more of the smallest firms begin to grasp the details and nuances of the regime.

Figure 20: Smaller firm: have firms examined the Pension Regulator's auto-enrolment guidance publications?



(Source: ACA 2012 Smaller Firms Survey, Table 18, page 34)

At a time when it is rumoured the number of independent financial advisers may reduce markedly due to the Retail Distribution Review, it is noteworthy that IFAs (31%) are seen as the most likely adviser many small firms intend to approach for help ahead of pension consultants (29%), administrators (16%), and accountants (11%). Again, this answer may reflect the fact that most smaller firms have not tested whether their chosen advisers can cost effectively deliver advice in this market and, indeed, what kind of scheme they are likely to ultimately choose. It would be surprising in the end if the majority of these smaller

[8] **Source: ACA 2012 Smaller Firms Survey, Table 19, page 35**

employers, particularly the ¾ million employing 4 or fewer staff, opted for anything other than large multi-employer type-arrangements, where the scope for advice from IFAs may be quite restricted.

One possibility might be the establishment of an approved panel of advisers who are geared up to provide cost effective advice on auto-enrolment to SMEs.

Figure 21: Smaller firm: advisers firms will be using to meet auto-enrolment requirements

	%
IFAs	31%
Specialist pension consultants	29%
Specialist pension administrators	16%
Accountants	11%
Banks	4%
Consulting actuary	3%
Other	6%

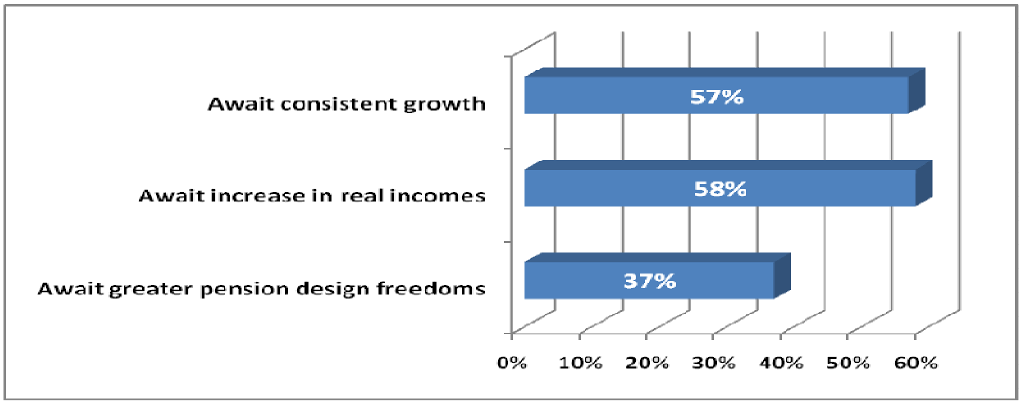
Delaying auto-enrolment?

Auto-enrolment as a policy has taken some time to be implemented, beginning as it did as a recommendation from the Pensions Commission in 2005. Whilst the Parliamentary process has in part contributed to the slow emergence of policy, inevitably with such a huge project – arguably the largest affecting so many people since the post-War launch of the NHS – progress has had to respect the practical administrative challenges involved and the economic backcloth facing employers and employees alike. The stretching of staging and phasing timetables since the initial announcements reflects the pressures.

Whilst the 2018 date for implementing the full 3% employer and 4% employee contributions on qualifying earnings seems a long way off, great uncertainties remain on the economic path running up to that date. It now seems increasingly unlikely that the structural deficit will be addressed anything like as quickly as was hoped and the longer this takes the more likely we are to see weak economic performance and concerns growing about the UK's timescale for recovery.

A majority of these smaller firms say they would have preferred the implementation of auto-enrolment to be delayed until consistent economic growth returns (57%) and there are general increases in real incomes (58%). This rises to over 60% amongst firms with 50 or fewer employees.

Figure 22: Smaller firms: should auto-enrolment be delayed for smaller firms until economic growth or increases in real incomes occur?



(Source: ACA 2012 Smaller Firms Survey, Table 21, page 35)

Currently, many would argue that there are too many complexities in UK pension legislation, so employers find it difficult to identify pension designs that are cost effective and flexible enough or which offer the degree of certainty employees are looking for from a long-term investment. A debate has been started by the Pensions Minister to reinvigorate private pensions by encouraging more 'defined ambition' pension schemes that sit in the space between pure defined contribution and defined benefit schemes.

Such schemes if developed might be worthy of consideration by some smaller employers and indeed might offer the greater certainty in pension income that the lack of at present in part causes employees to opt-out. It would have been useful if these designs had been available ahead of auto-enrolment being implemented (a few may be before the end of staging), particularly some types of low-cost multi-employer schemes that presently may not be feasible under current legislation. However, if new designs are delayed, then many firms will feel locked into the decisions made during the staging timetable. Inevitably in these circumstances most will have to choose a 'pure' defined contribution model where employees take on the full range of pension risks – investment, longevity and inflation.

Whatever the pros and cons of this situation, **only 37% of firms said that auto-enrolment should await legislation that allows greater freedom in pension design**[9].

[9] **Source: ACA 2012 Smaller Firms Survey, Table 21, page 36**

Views on other pension reforms

Pension pots to follow members: the Government has consulted on how small pension pots held by employees with different employers built up through their working like might best be consolidated. **73% of these smaller firms support the individual being required on moving job to transfer their accumulated fund into a central pot identified by the individual**[10].

Changes in State Pension Age (SPA): the Government has already announced that the move to age 66 will be no later than 2020 and to age 67 by 2028. An announcement is expected soon on how the SPA might move thereafter. **Firms are divided evenly as to whether the decision to change SPA should be determined by an independent non-governmental body (51%) or be automatically adjusted to reflect general increases in longevity (49%)**[11].

There have been concerns expressed that those with manual occupations might find as the SPA moves up that they are in receipt of fewer years of State pension, as their life-spans may not lengthen at a similar pace compared to the average. One solution might be to allow individuals to contribute higher NI to receive an earlier full Basic State Pension. **38% supported such an approach, whereas 62% said individuals should make higher private pension savings to effect an earlier retirement**.

Changes in private scheme pension ages: whilst the State can change the State Pension Age relatively simply affecting both future and accrued rights, private firms find changing their pension scheme age much more problematic as longevity advances. **61% of firms said that private schemes should be given a statutory override to enable them to adjust pension age for future service only (27%) or for both future and accrued pensions (34%)[12].**

55% of firms said the changes should mirror movements in the SPA, with 36% favouring the recommendations of a standing commission that monitors improvements in longevity. Just 9% felt an independent scheme specific report should be used.

Pension risks: one of the great pension dilemmas is that with the decline in defined benefit schemes, where most on the pension risks fall on the employer, most pension risks now fall squarely on the individual/employee in a defined contribution scheme/plan, irrespective of whether those individuals have the skills, interest or resources to cope with these risks. Whilst there are ways to reduce these risks – usually at the expense of investment returns and emerging retirement incomes – are there ways that firms might better share risks without incurring the liabilities attached to current defined benefit? The 'defined ambition' space being explored by the Pensions Minister supports consideration of ways employers and employees can share risks. Some pundits have said that firms – particularly smaller firms – are not interested in taking on pension risks, but is this the complete picture?

Our survey found broadly **only a third of firms say individuals should shoulder all of the 'investment', 'longevity' and 'inflation' risks associated with pensions. Around four out of ten firms say employers should share or take on the majority of these risks[13].**

[10] **Source: ACA 2012 Smaller Firms Survey, Table 22, page 36**
[11] **Source: ACA 2012 Smaller Firms Survey, Table 23, page 36**
[12] **Source: ACA 2012 Smaller Firms Survey, Table 24, page 37**
[13] **Source: ACA 2012 Smaller Firms Survey, Table 25, page 37**

Statistical Appendix: the ACA 2012 Smaller Firms Pension Survey results

This biennial survey was conducted by the Association of Consulting Actuaries (ACA) in July/August 2012 for online completion by 4 August 2012 and was broadcast to 20,000 of the UK's smaller firms with 250 or fewer employees, selected on a random basis. Responses were received from 541 firms. This survey report is part one of the ACA's *2012 Smaller Firms' Pensions Survey* and focuses on general trends in provision updating results from earlier biennial surveys of the sector and, in particular, replies to questions on forthcoming pension reforms including preparations for auto-enrolment.

The tables below give fuller breakdowns of the survey questionnaire replies. Figures in (brackets) are where comparable 2010 figures are available from a previous ACA *Smaller Firms' Pension* survey. In some cases comparable data was collected in a 2011 survey. Where this is the case, it is indicated.

Pension trends in smaller firms: today

Table 1

Breakdown of employers responding to survey (by number of employees)

10 employees or fewer	11-50 employees	51-150 employees	151-250 employees
25%	32%	26%	17%

Table 2

Type of pension arrangement offered by employers, scheme closures and participation rates

Type of pension scheme (if any)	Percentage of employers with schemes	% Closed to new entrants	% Closed to new entrants and future accruals/ contributions	Average of eligible employees in membership
Group Personal Pension	48% (47%)	16%	12%	48% (61%)
Stakeholder	43% (44%)			32% (38%)
Trust based DC	14% (21%)	45%	28%	52% (58%)
Mixed DB / DC	1% (4%)	25%		54% (59%)
Final salary scheme	14% (16%)	91% (86%)	43% (41%)	56% (55%)
No scheme	22% (12%)			

Table 3

Employers offering pension arrangements: opinions on why employees do not join

	Very strong reason	Strong
Cost – cannot afford	39% (32%)	55% (52%)
Prefer to spend income	30% (24%)	58% (48%)
Disillusioned with pensions	21% (23%)	59% (46%)
Lack of interest	13% (16%)	34% (24%)
Have own personal pensions	10% (8%)	25% (29%)
Prefer non pension savings	4% (5%)	36% (16%)

Table 4

Over the last 3 years has the proportion of existing employees leaving pension schemes increased or decreased on the earlier period?

Increased significantly	Increased marginally	No change	Decreased marginally	Decreased significantly
8%	21%	57%	12%	2%

Table 5

Reasons why employers do not provide pension schemes or an employer's contribution

	Very strong reason	Strong
Cost	89% (74%)	7% (22%)
Economic conditions in your industry	67% (70%)	11% (12%)
Employees say they prefer non pension benefits	22% (NCD)	44% (NCD)
Inappropriate because of employee turnover	14% (5%)	11% (24%)
Insufficient competitive pressures	14% (11%)	57% (42%)
State pension is adequate	1% (3%)	14% (18%)

(NCD = No comparable data)

Table 6

Timing of any reviews of pension arrangements

	Yes, but over a year ago	Yes, in last 12 months	Yes, currently	Will do so in next year	Yes, but over a year away	No review
10 employees or fewer	3%	11%	10%	16%	31%	29%
11-50 employees	3%	9%	4%	31%	26%	27%
51-150 employees	5%	18%	6%	24%	37%	10%
151-250 employees	10%	23%	11%	23%	26%	7%
All employers with schemes	**5%**	**15%** (19%)	**7%** (10%)	**25%** (24%)	**30%**	**18%** (47%)

Table 7

Do employers have a target as to what their spend on pensions is (as a percentage of payroll)?

	10 employees or fewer	11-50 employees	51-150 employees	151-250 employees	All Employers
No	67%	46%	47%	11%	**43%** (43%)
1 – 3%	8%	15%	18%	41%	**20%** (28%)
4 – 6%	12%	31%	24%	14%	**22%** (15%)
7 – 8%	8%	4%	6%	25%	**10%** (5%)
9 – 10%	3%	3%	4%	7%	**4%** (7%)
11% +	2%	1%	1%	2%	**1%** (2%)

Table 8

Overall, are employers trying to increase or decrease their spending on pensions?

	Increase	No change	Decrease
10 employees or fewer	9%	88%	3%
11-50 employees	7%	83%	10%
51-150 employees	3%	88%	9%
151-250 employees	20%	64%	16%
All employers	**9%** (14%)	**81%** (65%)	**10%** (21%)

Table 9

Retirement age: what is the typical retirement age from your organisation at present and how do you think this will change by 2020 and 2028?

	At present	By 2020	By 2028
Below age 65	14%	3%	1%
Age 65	77%	6%	5%
Age 66	3%	24%	5%
Age 67	2%	41%	36%
Age 68	2%	19%	18%
Age 69	1%	2%	7%
Age 70	1%	5%	26%
Over age 70			2%

Auto-enrolment: how are smaller firms shaping up for tomorrow?

Table 10

Do employers presently auto-enrol employees into any workplace pension schemes(s)? (i.e. employees are automatically enrolled into a scheme on joining or shortly after joining)

	Yes
10 employees or fewer	1%
11-50 employees	5%
51-150 employees	7%
151-250 employees	7%
All employers	5%

Table 11

Are employers aware of the date when they must enrol 'eligible jobholders' into an auto-enrolment scheme?

	Yes
10 employees or fewer	32%
11-50 employees	48%
51-150 employees	58%
151-250 employees	74%
All employers	**50%** (54%)

Table 12

Have employers checked whether their current pension scheme meets the minimum standards to be a 'qualifying' workplace pension scheme for auto-enrolment under the legislation?

	10 employees or fewer	11-50 employees	51-150 employees	151-250 employees	All Employers
Yes, meets standards	9%	18%	24%	30%	**21%**
Yes, needs amending	14%	19%	17%	11%	**16%**
No, not checked	77%	63%	59%	59%	**63%**

Table 13

Have employers budgeted for the likely increase in costs that could arise from auto-enrolling employees into a new scheme or due to a higher participation of employees being enrolled into an existing scheme?

	Yes
10 employees or fewer	21%
11-50 employees	28%
51-150 employees	30%
151-250 employees	34%
All employers	**28%** (21%)

How will the introduction of auto-enrolment affect employers and workplace pension provision?

	10 employees or fewer	11-50 employees	51-150 employees	151-250 employees	All employers
No great impact	10%	17%	8%	21%	**14%** (19%)
Add marginally to costs	48%	35%	56%	50%	**46%** (26%)
Add significantly to costs	42%	48%	36%	29%	**40%** (55%)

Table 14

What opt-out rate has been assumed in employers' budgeting?

	10% or under	11-25%	26-35%	36-50%	Over 50%
10 employees or fewer	6%	13%	49%	19%	13%
11-50 employees	14%	52%	17%	12%	5%
51-150 employees	27%	41%	19%	11%	2%
151-250 employees	37%	40%	12%	8%	3%
All employers	**23%**	**40%**	**21%**	**11%**	**5%**

(Light blue shading – median band)

Table 15

How are employers with existing schemes most likely to respond to auto-enrolment?

Probably auto-enrol all into existing scheme	Likely	Not sure	Unlikely
10 employees or fewer	38%	41%	21%
11-50 employees	40%	38%	22%
51-150 employees	57%	19%	24%
151-250 employees	67%	10%	23%
All employers with schemes	**50%** (62%)	**27%** (9%)	**23%** (29%)

Probably auto-enrol all into NEW employer's scheme	Likely	Not sure	Unlikely
10 employees or fewer	11%	41%	48%
11-50 employees	11%	38%	51%
51-150 employees	12%	19%	69%
151-250 employees	10%	18%	72%
All employers with schemes	**11%** (24%)	**29%** (9%)	**60%** (67%)

Probably restrict entry into existing scheme and auto-enrol balance into NEST	Likely	Not sure	Unlikely
10 employees or fewer	10%	45%	45%
11-50 employees	11%	40%	49%
51-150 employees	14%	17%	69%
151-250 employees	13%	16%	71%
All employers with schemes	**12%** (21%)	**29%** (10%)	**59%** (69%)

Use NEST as a foundation scheme	Likely	Not sure	Unlikely
10 employees or fewer	5%	8%	87%
11-50 employees	7%	9%	84%
51-150 employees	4%	12%	84%
151-250 employees	5%	8%	87%
All employers with schemes	**5%** (19%)	**10%** (15%)	**85%** (66%)

Probably close existing scheme and auto-enrol all into NEST	Likely	Not sure	Unlikely
10 employees or fewer	5%	16%	79%
11-50 employees	6%	7%	87%
51-150 employees	2%	9%	89%
151-250 employees	2%	5%	93%
All employers with schemes	**4%** (20%)	**9%** (15%)	**87%** (65%)

Table 16

How are employers with no schemes most likely to respond to auto-enrolment and NEST?

No current scheme:	Likely to auto-enrol into employer's scheme	Likely to auto-enrol all into NEST	Not sure
10 employees or fewer	12%	42%	46%
11-50 employees	21%	35%	44%
51-150 employees	33%	28%	39%
151-250 employees	40%	40%	20%
All employers with no schemes	**19%**	**38%**	**43%**

Table 17

Will employers review existing scheme benefits to mitigate the cost of higher scheme membership from auto-enrolment?

	Likely	Not sure	Unlikely
10 employees or fewer	14%	19%	67%
11-50 employees	26%	23%	51%
51-150 employees	26%	36%	38%
151-250 employees	24%	36%	40%
All employers with schemes	**23%** (29%)	**29%** (24%)	**48%** (47%)

Table 18

The Pensions Regulator has published a series of guidance papers on auto-enrolment and the responsibility of employers in the new regime. Has your business examined this guidance?

	Yes, in full	Yes, some	No	No, using adviser
10 employees or fewer	4%	11%	69%	16%
11-50 employees	5%	11%	67%	17%
51-150 employees	7%	6%	63%	24%
151-250 employees	12%	14%	39%	35%
All employers	**7%**	**10%**	**62%**	**21%**

Table 19

Are you aware of the regulatory regime for auto-enrolment?

	Aware	Not aware
All employers	**18%**	**82%**

Of those firms that are aware of the regime, what is their general impression of the regulatory regime for auto-enrolment?

	Appears reasonable	Appears complex	Appears very complex
All employers with schemes	**24%**	**53%**	**23%**

Table 20

If firms are using advisers to help meet the auto-enrolment and qualifying workplace pension schemes' requirements, what types of advisers are going to be used?

	%
IFAs	31%
Specialist pension consultants	29%
Specialist pension administrators	16%
Accountants	11%
Banks	4%
Consulting actuary	3%
Other	6%

Table 21

Should auto-enrolment be delayed as a requirement for smaller employers until the economy and real incomes begin to grow and/or until the Government passes legislation to allow employers greater freedom to offer more flexible pension designs than at present?

Await consistent economic growth	Yes
10 employees or fewer	62%
11-50 employees	64%
51-150 employees	46%
151-250 employees	52%
All employers	**57%**

Await general increase in real incomes	Yes	
10 employees or fewer	64%	(39%)*
11-50 employees	66%	
51-150 employees	44%	
151-250 employees	56%	
All employers	**58%**	

Await greater pension design freedoms	Yes	
10 employees or fewer	29%	(39%)*
11-50 employees	31%	
51-150 employees	38%	
151-250 employees	42%	
All employers	**37%**	

(* *2011 ACA Pension trends survey*)

Views on other pension reforms

Table 22

Should individuals be required on moving employer to transfer all their accumulated private pension fund or pension contributions – employer and employee – into 'one pot'?

	Central pot identified by individual	Central pot identified by employer	Transfer funds automatically to NEST	Employees right to keep pot with existing scheme
10 employees or fewer	82%	5%	10%	3%
11-50 employees	76%	7%	7%	10%
51-150 employees	71%	7%	7%	15%
151-250 employees	64%	14%	6%	16%
All employers with schemes	**73%**	**8%**	**7%**	**12%**

Table 23

Reflecting advances in life-spans and the need to control the cost of the State pension, the Government has moved forward to no later than 2020 the increase in State Pension Age (SPA) to age 66 and 2028 for the move to age 67. Do firms support the idea that further increases in the SPA should be linked automatically to average increases in life-spans? And, should employers be able to increase their State Pension contributions so they can elect for an earlier SPA than the general age?

	All employers
SPA should be determined by an independent non-governmental body	**51%**
SPA should be automatically adjusted to reflect general increases in longevity	**49%**
Individuals should have choice to pay higher State Pension contributions to receive full SPA earlier	**38%**
Individuals who wish to retire earlier than the official SPA should save more privately	**62%**

Table 24

Should workplace pension schemes be given a statutory override enabling them to adjust Scheme Pension Age automatically as life-spans extend, provided reasonable notice is given?

No	Yes, for future service pensions only	Yes, for future and accrued pensions
39%	27%	34%

If 'Yes', how should these changes in private workplace pension ages take place?

In line with SPA	In line with recommendations of a standing commission	In line with an independent report specific to the scheme
55%	36%	9%

Table 25

In designing pension arrangements, broadly what percentage of risk should INDIVIDUAL EMPLOYEES be prepared to take in these risk areas?

Investment risk	All of the risk	Over 50% of the risk	Share 50/50 with employer	Under 50% of the risk	None
10 employees or fewer	49%	22%	15%	8%	6%
11-50 employees	34%	30%	24%	8%	4%
51-150 employees	33%	29%	27%	9%	2%
151-250 employees	21%	39%	29%	7%	4%
All employers	**33%**	**30%**	**25%**	**8%**	**4%**

Longevity risk	All of the risk	Over 50% of the risk	Share 50/50 with employer	Under 50% of the risk	None
10 employees or fewer	42%	27%	16%	11%	4%
11-50 employees	29%	32%	26%	7%	6%
51-150 employees	29%	31%	29%	8%	3%
151-250 employees	28%	32%	24%	9%	7%
All employers	**31%**	**31%**	**25%**	**8%**	**5%**

Inflation risk	All of the risk	Over 50% of the risk	Share 50/50 with employer	Under 50% of the risk	None
10 employees or fewer	36%	29%	22%	11%	2%
2%11-50 employees	26%	31%	30%	8%	5%
51-150 employees	25%	28%	33%	9%	5%
151-250 employees	23%	28%	32%	10%	7%
All employers	**27%**	**29%**	**30%**	**10%**	**4%**

Auto-enrolment: a quick summary

The *Pensions Commission Reports* in 2005 and 2006 pointed to significant under-saving for retirement, notably amongst low-to-moderate earners, with millions heavily reliant on inadequate State pensions. The then Government responded by flagging its intention to restore the indexation of the Basic State Pension to earnings growth alongside a number of other improvements (but with the State Pension Age (SPA) gradually increasing in stages to 68). Additionally, to boost pension coverage and to take in up to 11 million new pension savers, the Government accepted the need for both a low-cost national scheme (NEST) for employees not offered access to an employer's scheme meeting certain minimum requirements and **auto-enrolment into either NEST or an employer's scheme. Following an independent review over the summer of 2010 the coalition government made a few changes in the policy detail. Separately, they accelerated the uplift in SPA and later stretched the auto-enrolment timetable.**

The key features of the policy are (and for brevity some features are not covered) are:

• a new employer duty has come into force from October 2012. From then, **auto-enrolment of all 'eligible jobholders'** (those aged 22 and below State Pension Age **with earnings above £8,105pa)** (2012/13) into **'an auto-enrolment scheme, unless they are already an active member of a qualifying scheme' has begun as a statutory requirement** for the largest employers. Minimum contributions for those schemes qualifying under the DC 'relevant quality requirement' will however be calculated on earnings above the national insurance primary threshold £5,564pa (presently) up to £42,475pa (this may be reduced in 2013/14). All these earnings figures will be up-dated annually.

• Medium sized and small employers will be required to auto-enrol their 'eligible jobholders' into an auto-enrolment scheme on a staged basis geared to PAYE references, such that all employers, including single employee firms, will be integrated by April 2017. There are later dates for new employers up to 1 February 2018.

• 'Jobholders' aged over 16 and under 22 or over State Pension Age up to age 75 will be able to ask to be enrolled into an auto-enrolment scheme if their earnings level exceeds £5,564pa (and the employer must comply and pay the employer's contribution). If they have no qualifying annual earnings above £5,564pa, they can enrol, but no employer contribution is required. If they have earnings between £5,564pa and £8,105pa they can ask to be enrolled and their employer will have to make a minimum contribution. There are provisions for schemes, for example, that structure their contributions in different ways to be certificated as qualifying schemes.

• All jobholders will have the right to 'opt out' (but eligible jobholders must be auto-enrolled first) and all eligible jobholders will be re-enrolled every 3 years, with a view to increasing scheme coverage over time.

• For most defined contribution auto-enrolment schemes, minimum employer contributions will be phased-in starting at 1% of band earnings in October 2012. The minimum will be increased to 2% from 1 October 2017. From 1 October 2018 contributions will be 8% of employee band earnings, with a minimum of 3% coming from the employer (plus 4% from the employee and 1% by way of tax relief). Earnings include salary, wages, overtime, bonuses and commission, as well as statutory sick and maternity pay. Where employers are paying the minimum contribution, the employee's minimum contribution will be 1% of band earnings from auto-enrolment, increasing to 3% of band earnings from 1 October 2017 and 5% from 1 October 2018 (including tax relief).

• Employers with existing defined benefit and hybrid schemes can choose to delay automatic enrolment until 30 September 2017, but only for certain 'eligible jobholders'.

• Employers will be able to auto-enrol eligible jobholders into a firm's own existing (or new) auto-enrolment and/or qualifying scheme, or otherwise must enrol them in the new National Employment Savings Trust (NEST). There will be an optional waiting period of up to 3 months before a worker needs to be auto-enrolled, although workers may opt in during the waiting period.

• NEST has been developed as a trust-based, defined contribution, portable, low-cost scheme (0.3% annual management charge plus 1.8% charge on each contribution until NEST set up costs are met), designed for the needs of low-to-moderate earners. Its investment approach will reflect the needs of these groups.

• NEST will only accept transfers in and out of the scheme in very limited circumstances under current legislation, but this may be reviewed.

The Association of Consulting Actuaries (ACA) is the representative body for UK consulting actuaries and is the largest national grouping of consulting actuaries in the world.
Members of the ACA provide advice to thousands of pension schemes, including most of the country's largest schemes. Members are all qualified actuaries and all actuarial advice given is subject to the Actuaries' Code.

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