ASSOCIATION OF ACA CONSULTING ACTUARIES

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The ACA has made recommendations to simplify the Government's auto-enrolment pensions 'project' including the initial exclusion of smaller employers as well as a range of proposals to simplify its administration...

SURVEY FINDS 41% OF LARGER EMPLOYERS ARE CONSIDERING LEVELLING-DOWN THEIR PENSION SCHEMES TO MITIGATE THE COST OF AUTO-ENROLLING EMPLOYEES

31 August 2010 – Many of the country's largest employers are beginning to consider the impact of new statutory rules from 2012 requiring them to auto-enrol millions of extra employees into workplace pension schemes – employees who at present have not joined schemes. Already, 41% of employers say that they are 'likely' or 'highly likely' to level-down (reducing future benefits in existing and in new schemes relative to existing ones) to meet the additional cost of these newly pensioned employees; although to date under a half have actually budgeted for any cost. These are two of the key findings of an *Auto-enrolment and NEST* survey conducted this summer by the Association of Consulting Actuaries (ACA) as part of its input to the current review of auto-enrolment commissioned by the Coalition Government.

The ACA survey gathered responses from 210 large private and public sector employers[1] with combined pension scheme assets of £166 billion. The ACA is currently surveying smaller firms[2] views' on auto-enrolment with results expected soon.

Other key findings include:

- **Whilst 75% of employers support the principle of auto-enrolment, 70% feel the auto-enrolment regulatory regime 'appears complex'**
- **64% say the new rules requiring employers to re-enrol 'opters-out' every three years should be removed**
- **75% say employees with less than three months' service should not be auto-enrolled, as required under the new rules**
- **73% want minimum pension contributions to be based on a percentage of basic pay rather than full earnings, the latter being the basis in the *Pensions Act 2008***
- **Over 60% say that employers with fewer than five employees should be exempt from auto-enrolment.**

On NEST (National Employment Savings Trust) (see *Note for Editors*), the organisations responding to the survey have mixed feelings. Half (49%) agree with its establishment. The remainder are split between those who would prefer existing commercial organisations (22%) to fulfil the NEST role (although there seems no great enthusiasm from providers to undertake this role) and those disagreeing with the entire concept (29%), largely made up of the quarter of respondents who are opposed to auto-enrolment.

Just over half the organisations (52%) favour a delay in introducing auto-enrolment, which at present will begin in October 2012, whilst just under a half (47%) say a delay is needed until the Government passes legislation to allow greater freedom for employers to offer more flexible pension designs than is possible at present.

Commenting on the survey results, **ACA Chairman, Stuart Southall** said:

"Whilst the full cost of auto-enrolling all eligible employees will not hit most organisations until 2017, it is only right that the costs of auto-enrolment, including the administrative challenges, are addressed and tested as soon as possible. Larger employers must act in the run-up to 2012. That is why we have welcomed the review commissioned by the Coalition Government and have separately made our own recommendations as to how the overall policy can be simplified and improved, taking account of the need to support 'quality' provision and against the much changed financial backcloth since the reforms were first launched."

The **ACA's own evidence to the auto-enrolment review**, submitted last week, focused on choosing the right group to auto-enrol, timing issues, minimising the administrative burdens on employers and reducing the impact on existing provision.

Amongst the ACA proposals made are:

- a higher earnings threshold before employees are auto-enrolled. This would help to avoid mis-selling to those on lower incomes who might lose valuable State benefits whilst only receiving a small additional private pension;
- a delay in auto-enrolling employees of micro employers, but with the NEST trustees having a statutory duty to advise the Government on when auto-enrolment is practicable for this group. This action would radically reduce the administrative challenges in the early years. Otherwise, over 1 million employers, including those with just one employee, will be required to introduce auto-enrolment with sizeable resources needed to make regulatory checks;
- a shorter staging period than the current five years is recommended to reduce the risk of levelling-down, perhaps associated with a delay in the October 2012 implementation of auto-enrolment;

- a relaxation in the rigid timescales for auto-enrolment so as to recognise practical difficulties in enrolling employees, with the re-enrolment requirement every three years being removed;
- an easing of the DC contribution test to reflect employers' payroll practices allowing them to satisfy one of three tests (and, similarly, the exemption criteria for defined benefit schemes, notably those for career average and hybrid schemes, should be radically simplified); and
- the anti-inducement procedures (to stop employers encouraging employees to opt out) are highly ambiguous and, in particular, need to be clarified for organisations operating a flexible benefits plan.

The ACA's evidence to the auto-enrolment review and the 'Auto-enrolment and NEST survey' report are available at www.aca.org.uk (see: recent publications).

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Note for Editors

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 State Pension to earnings growth alongside a number of other improvements, whilst increasing the State Pension Age gradually to 68 by 2046. Additionally, to boost additional private pension coverage and to take in up to 10 million new pension savers, the Government accepted the need for both a low-cost national scheme, now called the **National Employment Savings Trust (NEST)**, for employees not offered access to an employer's scheme meeting certain minimum requirements, with auto-enrolment into either NEST or an employer's scheme. The **Coalition Government recently announced a review of the auto-enrolment policy**, requesting that the reviewers report to the Pensions Minister by 30 September 2010.

About the Association of Consulting Actuaries (ACA)

The **Association of Consulting Actuaries (ACA)** is the representative body for consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body. The ACA has 1750 members working in around 75 firms. ACA Members are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. The ACA forms the largest national grouping of consulting actuaries in the world.

[1] This ACA survey is of larger employers only – three quarters employing over 1,000 people. The DWP commissioned survey of employers (*Employers' attitudes and likely reactions to the workplace pension reforms 2009*), published last week but based on research conducted in the summer of 2009, covered mostly smaller employers and was weighted to reflect the size and industrial structures of UK employers – where 94% of employers have fewer than 20 employees. The DWP survey found only 1 in 10 employers in its sample already run schemes meeting the minimum contribution requirements of the forthcoming reforms. The scope for levelling-down pensions amongst smaller employers is therefore very limited, particularly as two-thirds do not currently run a pension scheme. The DWP survey finding that 'most employers already making pension contributions of three per cent or more expect to maintain or increase their level of contribution when they have to provide pensions for all their staff' therefore only relates to those 1 in 10 employers surveyed a year ago already contributing at this level.

[2] Employers with 250 and fewer employees