Dealing with 2012 – Automatic Enrolment

- Eddie McAuley
- Hymans Robertson

Auto-Enrolment – it's easy...............

Why reform workplace pensions?
A history lesson.....

- 2003 – 2005 Pensions Commission reviewed the UK pension system and made recommendations.
- Pension Commission found that:
  - Up to 12 million people are not saving enough for retirement
  - State Pension could not meet this challenge
  - Taking no action was not an option

The Pension Commission recommendations

- Fairer, more generous state pension coverage.
- System of automatic enrolment into pension saving
- Minimum employer contribution to workers pensions
- New, national pension scheme designed to provide a simple and low cost way of saving for low to moderate earners.

PENSIONS ACT 2008

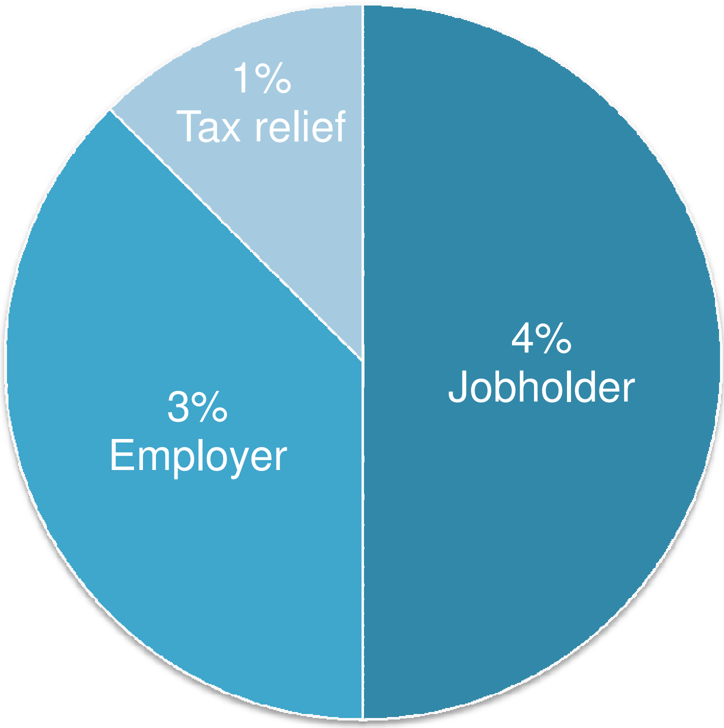
Target population pre 2012

	Currently a Pension Scheme Member	Eligible for Auto-Enrolment in 2012 (Based on Pensions Act 2008)
Numbers	5 / 6 million	10 / 11 million
Household Wealth	£300k median	£130k median
Employer Size	69% work for employers with > 250 employees	33% work for employers with < 19 employees

NEST VIDEO

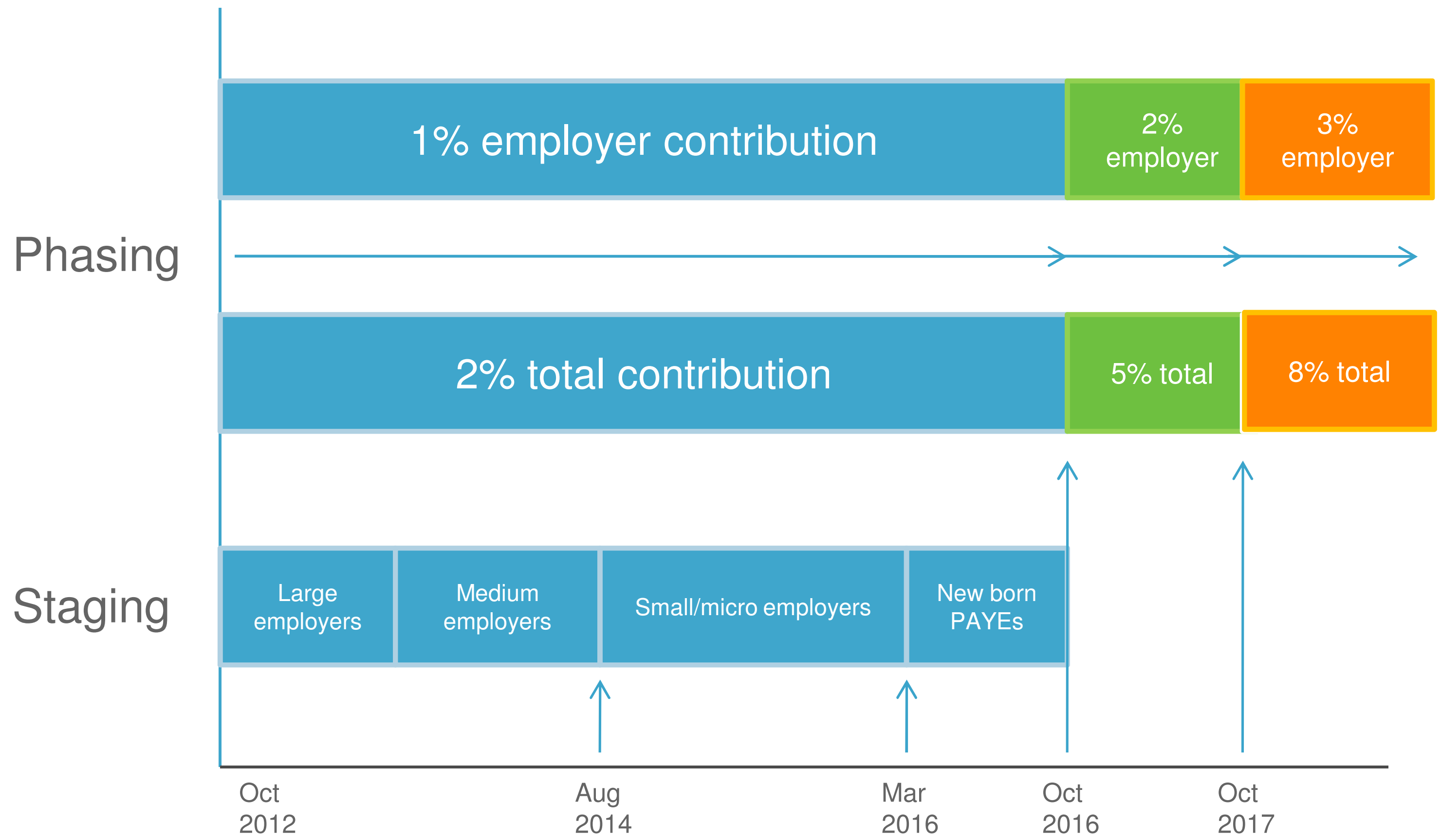
NATIONAL
EMPLOYMENT
SAVINGS TRUST

What? - Minimum contribution levels



- Minimum contribution of 8 per cent of qualifying earnings (between £5,035 and £33,540, Pensions Act 2008)
- Employer must contribute at least 3 per cent
- Can choose to contribute more if they wish
- Jobholder can also contribute more
- DB: 1/80th contracted out or 1/120th contracted in

When? DC staging and phasing plans



- DB, Hybrid – autoenrolment Oct 2016, no phasing

Then the world changed.......

- Financial crisis.
- Change in political environment - Government went from red to blue (and gold).
- Despite the previous broad political consensus a review of automatic enrolment was announced on 24th June 2010.

Review objectives

- "...scope of it (automatic enrolment) and whether a new national pension scheme (NEST) needs to be put in place for it to work."
- Review and conclusions addressed 4 broad questions

Is there a case for excluding employees below a particular threshold?

- Review rejected a big increase in earnings threshold
- **Review concluded that auto-enrolment should apply to those over the tax threshold on earnings above the NI primary threshold.**

Is there a case for excluding any employers?

- Higher costs for micro employers. However.....
- Excluding 800,000 micro employers would be hard
  - Identifying via PAYE
  - Creates barriers to growth
  - Competitive distortions
  - Not gender neutral

Review also felt it had the potential to undermine the policy

Would any changes to proposed regulations, enhance the policy?

- **A range of regulatory issues identified**
- Flagging of NEST for small employers
- Opt out before auto enrolment
- Flexibility over enrolment dates
- Re-enrolment
- Waiting periods
- Certification

Certification

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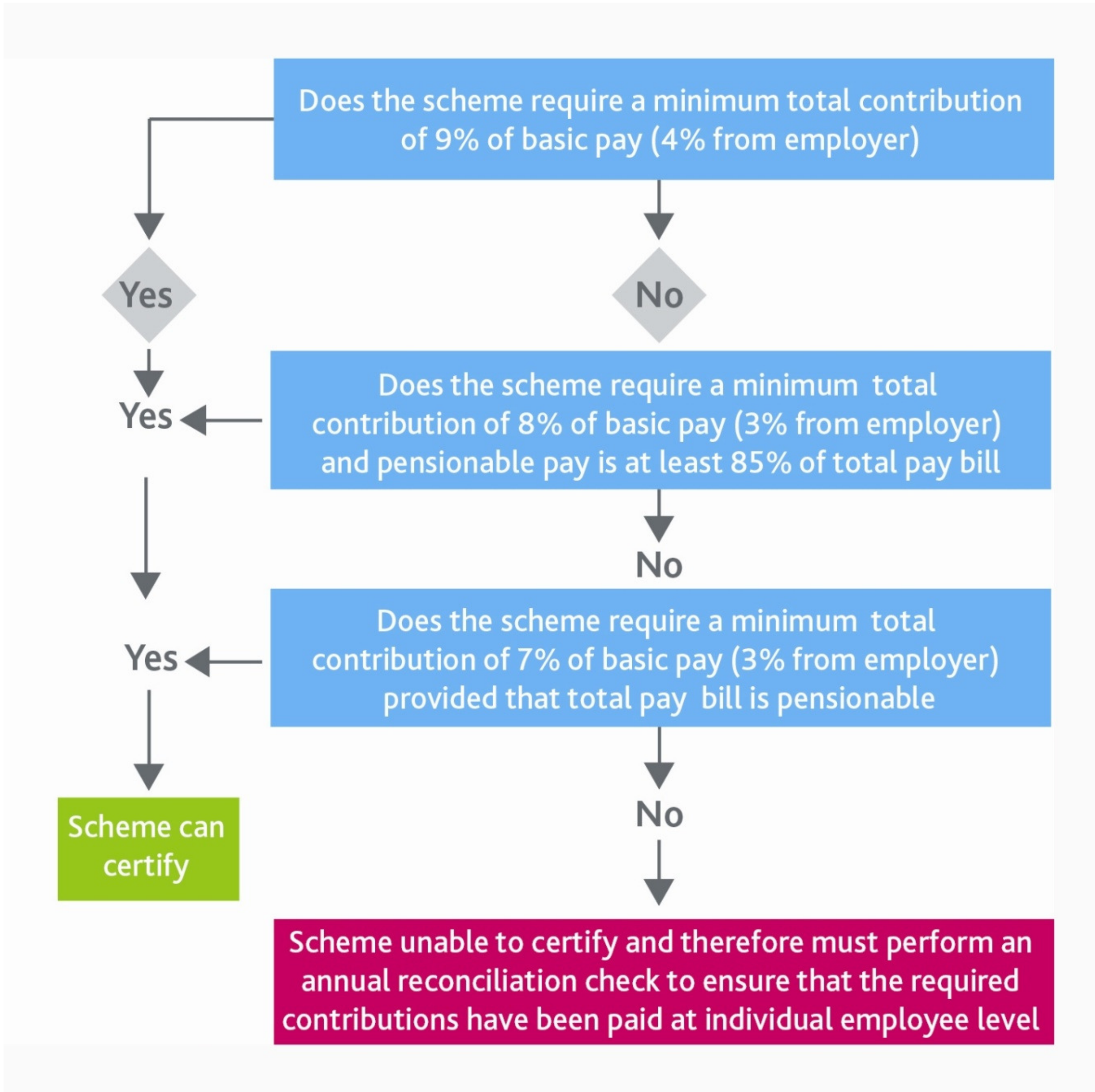

Is NEST necessary for the successful implementation of automatic enrolment?

- **NEST would not be needed and the Market could provide if.........**
  - Small employers excluded
  - Earnings threshold to at least £10k
  - More time available
  - Higher charges acceptable

.....but Review believes it is needed for the intended audience.

15 Recommendations from the Review

- Accepted as a package
- Now with DWP
- To legislate this year

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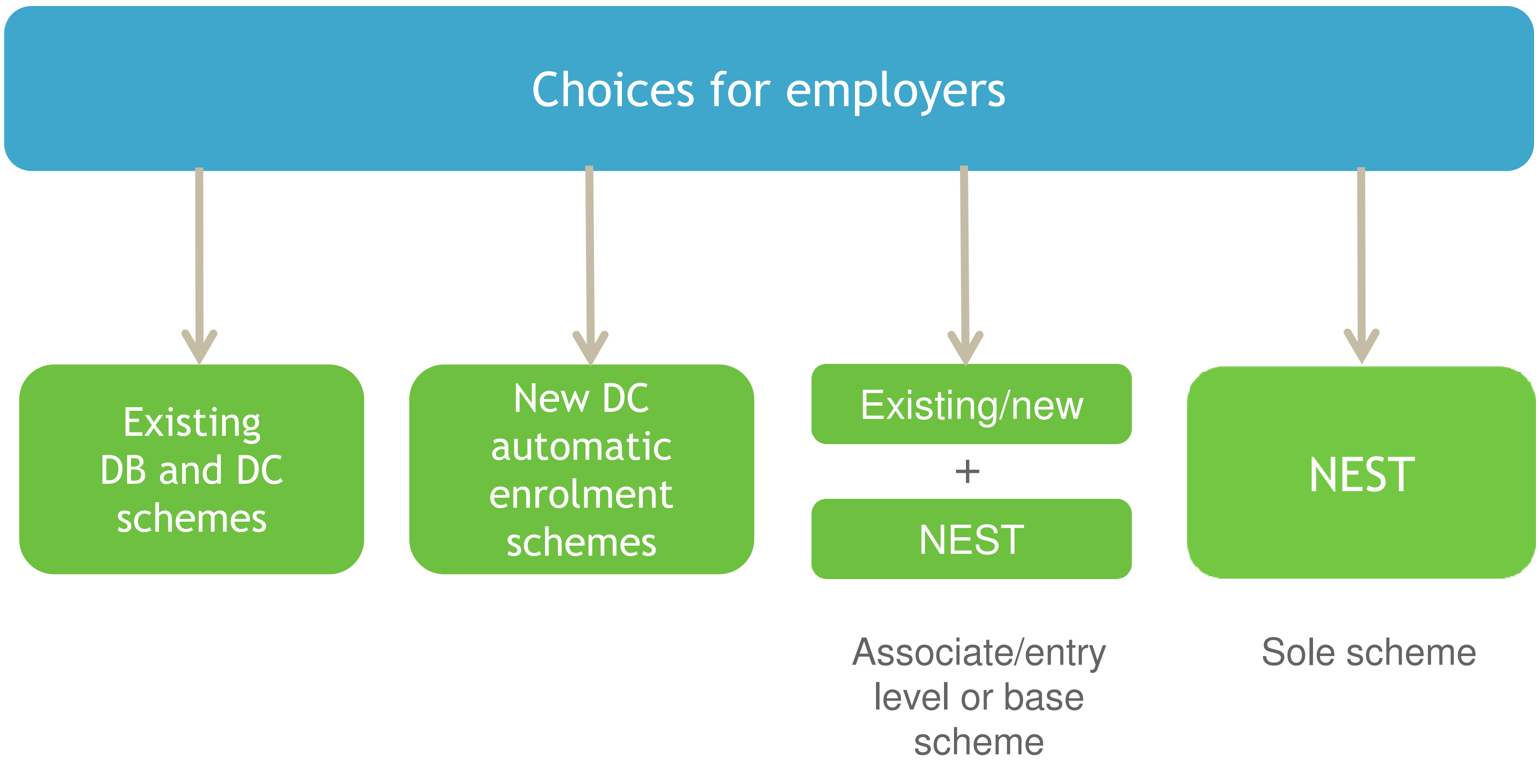
So where will that leave us?

	Pensions Act 2008	Making Automatic Enrolment Work
Eligible Jobholders	Aged between 22 and SPA and earnings in excess of £5732 (in today's prices)	Aged between 22 and SPA and earnings above income tax threshold (£7495 in 2011/12)
Auto Enrolment	Day 1	After 3 months service
Contribution Level	Phased in	No Change
Contribution Band	£5732 to £38185 (in today's prices)	£5715 (linked to NI primary threshold) to £38185 (in today's prices)
Staging Dates	Start 1st November 2012	No change (except largest can start w.e.f. July 2012).

Getting ready for 2012

- Defining a good outcome
- Plan design and financial analysis
- Assess delivery vehicle options
- Design and testing of admin process
- Communications

2012 – Employer Options

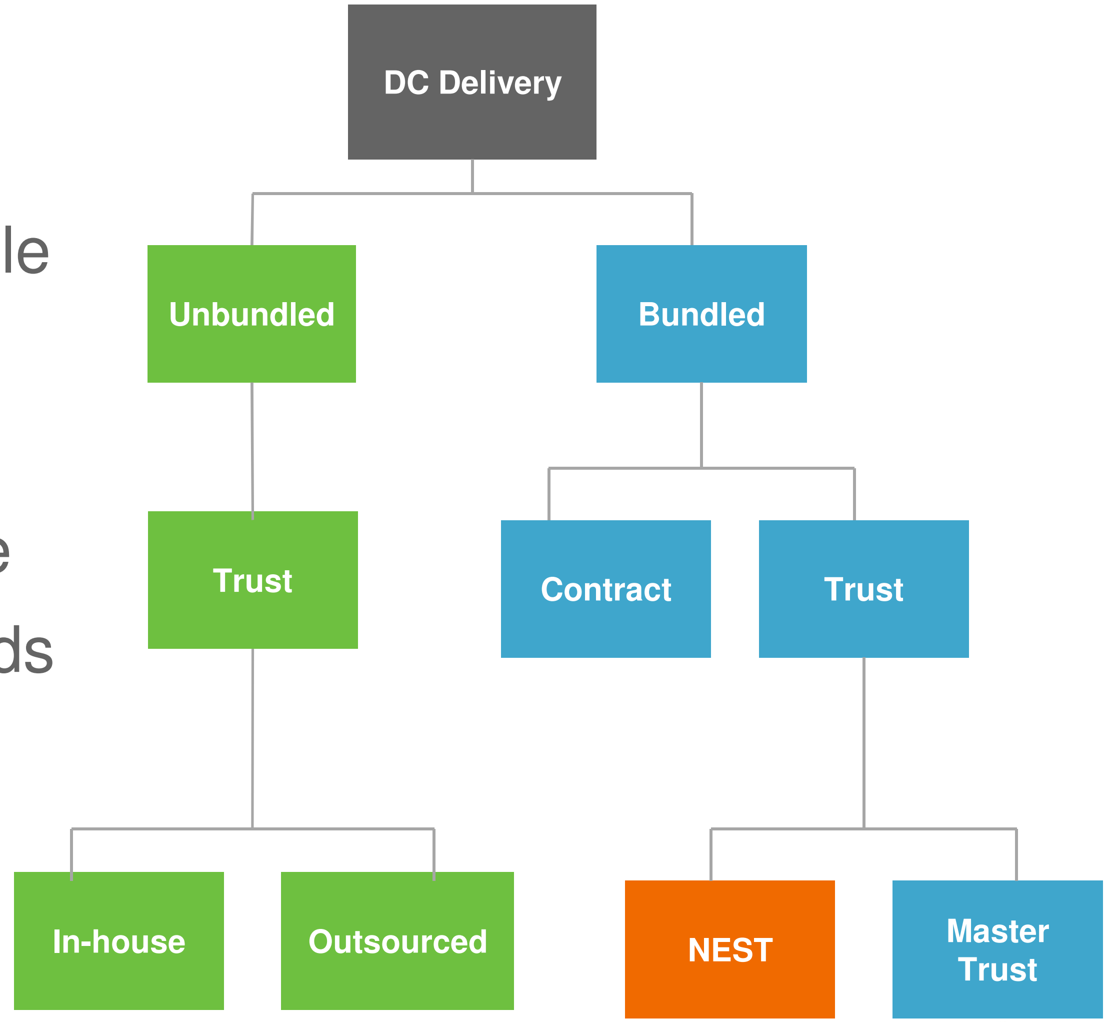


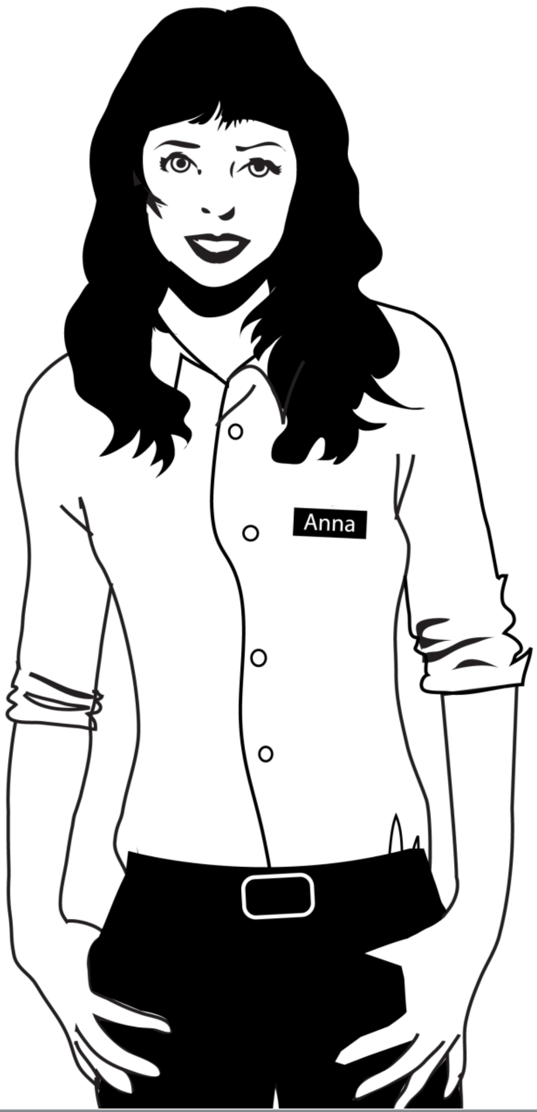
Plan design and financial analysis

- Contribution structure
  - Current state – financial projections
  - Alternative designs
- Design considerations
  - Uniformity of approach
  - Transitional period
  - Pensionable pay definition
  - Competitors / Unions
  - Ease of certification

Delivery vehicle assessment

- Considerations
  - Efficient and scalable
  - Cost effective
  - Employer duties
  - Member experience
  - Short-service refunds
  - Future proofing





Anna's Story

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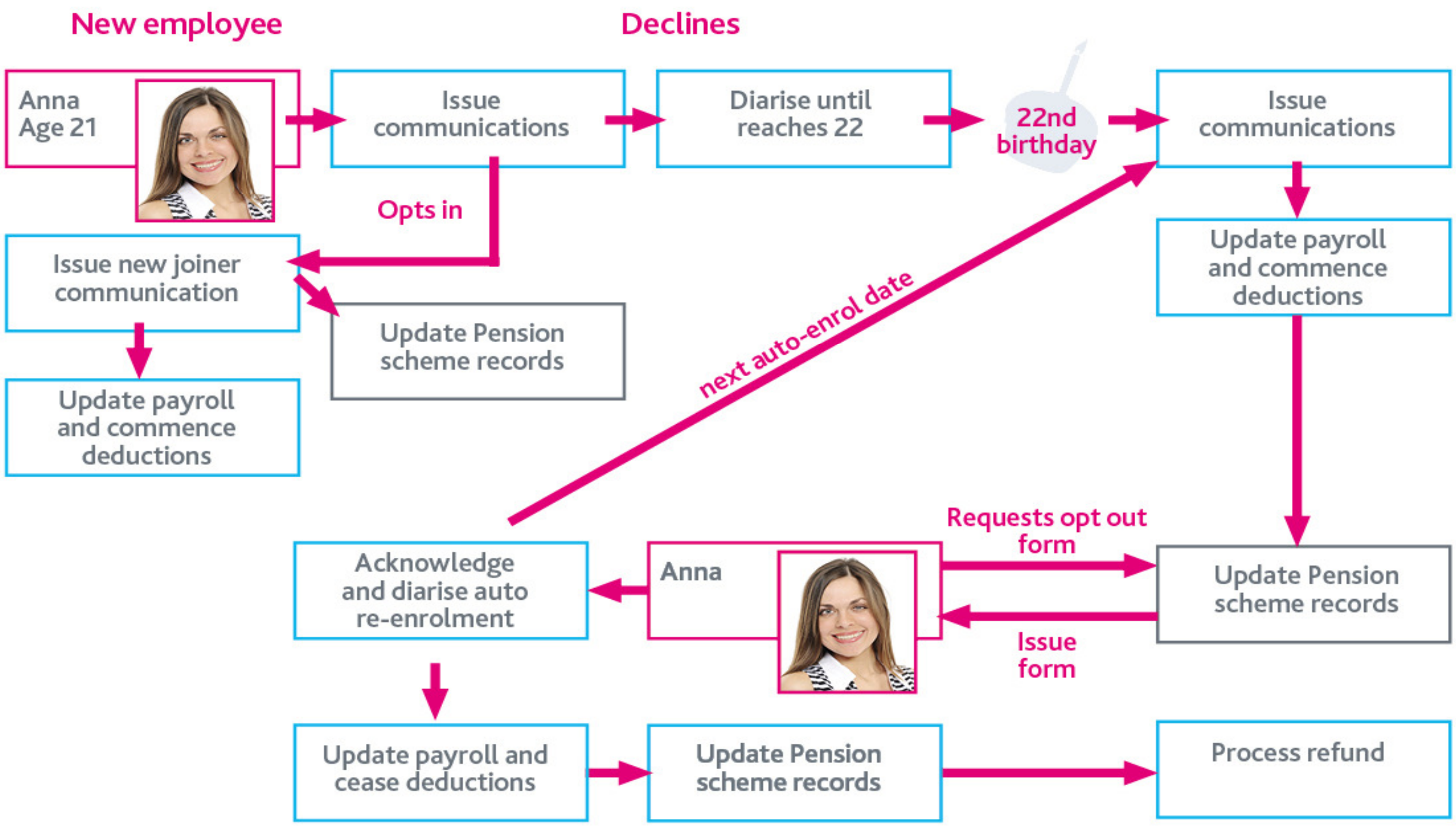
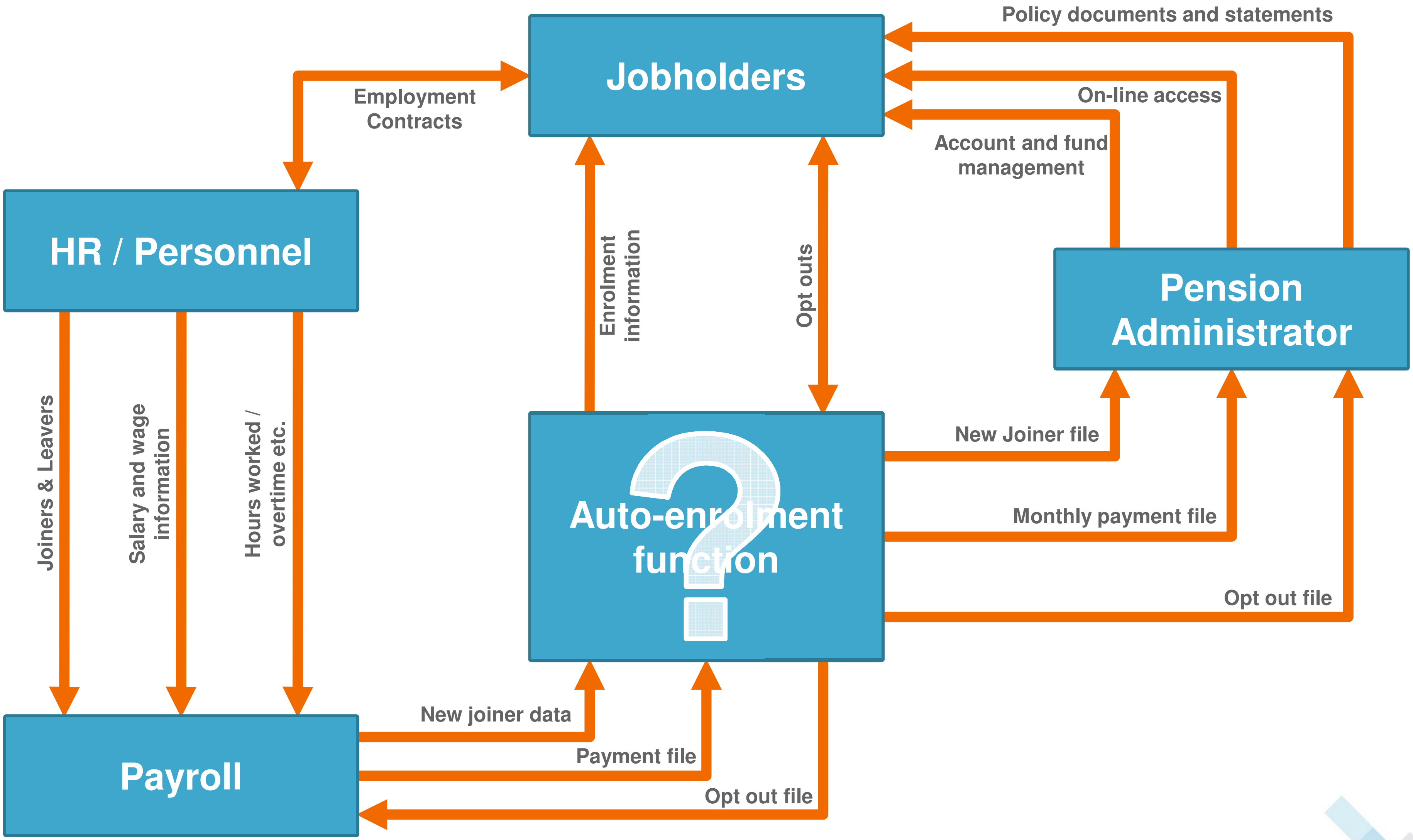
Admin process – design and testing



Tom’s Story

Capability assessment



Administration considerations

- Design of processes
  - Apportionment of process responsibility
  - Interface with providers
  - Timing
  - Tie in with communications
  - Record keeping requirements
- System capabilities
  - Diary function
  - Record keeping
  - Reporting
  - Provider support

Communications

- Compliance or benefit?
- Branding?
- Media?
- Detailed content

Enabling good member outcomes in DC

Requires success in...

- Contribution decisions
- Investment decisions
- Administration
- Protection of assets
- Value for money
- Decumulation decisions

Market segmentation

Occupational

- Large
- Multi-employer
- Small unbundled
- Small bundled

Personal

- Advised and engaged employer
- Advised and disengaged employer
- Unadvised employer

Accountability

Thank You

Any questions?

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ACA Regional Meeting - Glasgow

Hutton

The beginning of the end, or the end of the beginning?

March 2011

Graeme Muir FFA

Agenda

- Quick reminder
  - Hutton's remit
  - Initial report
- Final report recommendations
- Some missed tricks?
- Questions and discussion

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Hutton's remit

- To conduct a fundamental review of public service pension provision and make recommendations on pension arrangements that are

- Sustainable and affordable in the long term
- Fair to workforce and taxpayers
- Consistent with the fiscal challenges
- Protect "accrued rights"

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Have regard to

- Disparity with private sector (pensions envy)
- Assist in recruitment and retention
- Fair across the workforce
- How risks should be shared between employee and tax payers
- Which employers allowed in
- Transition issues
- Encourage adequate saving and longer working lives

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Initial report – key messages

- Fairer balance required
  - current taxpayers and public sector employees
  - current and future generations
- Increase in member contribution rates
  - Targeted at high earners

- Public sector pensions are not gold plated
- No race to the bottom
  - Public service pensions should become benchmark for the private sector to aim for
- Final salary pensions are no longer a robust and fair mechanism

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Initial report – key messages

- Need model that provides
  - A fair sharing of risk between the employer and employee
  - And adequate pensions for members

- DC is not the answer
- Future pension ages need to reflect longevity changes
- Retain unfunded nature of existing schemes
- No reason to de-fund existing funded schemes such as the LGPS
- Final report is to consider alternative structures such as career average, collective DC and hybrids

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Final report – call for evidence

- 25 Questions
- Key themes
  - Risk sharing
  - Adequacy of benefits
  - Employee Understanding and Choice
  - Transferability
  - Costs and efficiency
  - Plurality of schemes
  - Transition

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Some of final report's 27 recommendations

- Career Average for future service
  - Earnings revaluation rather than CPI
- Maintain final salary basis for past service
- Single benefit design across income range
- Pay more as you earn more
- Pension age linked to State Pension Age
- "Public service staff" only
- Disappointingly no real risk sharing
  - Continue with cap and share
- Improved governance and transparency

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Key challenge (for Government)

- Employees to pay more for less
  - Lower pensions for most
  - Higher employee contributions

- Enormous care required to avoid opt out
  - Increase Government cost for unfunded schemes
  - Increase burden on future tax payers
- LGPS already had earnings related contributions
  - The more you earn the more you pay
  - Ahead of the game
- Chancellor decides an extra 3% required
  - Why?

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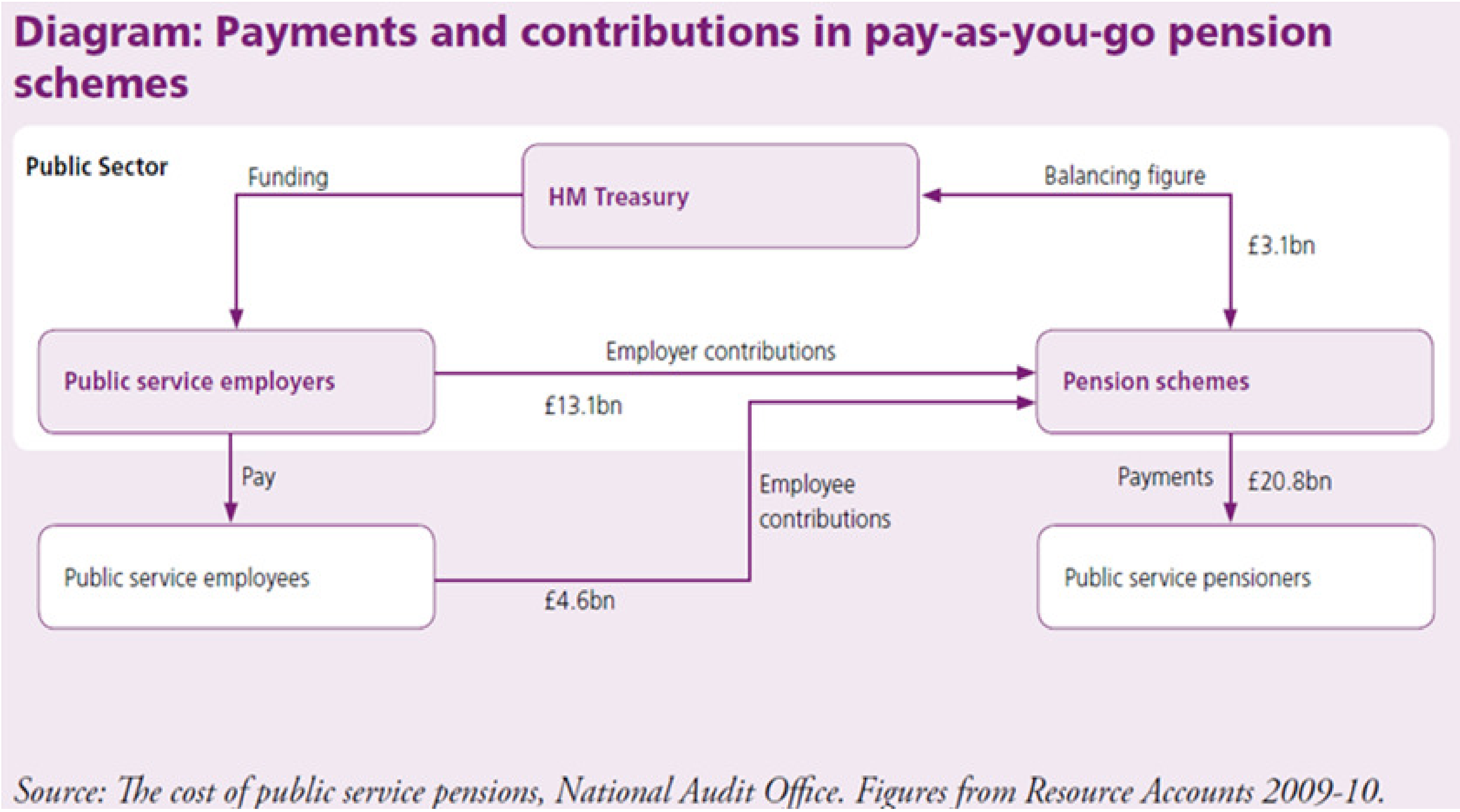
Unfunded Scheme Cashflows



Unfunded Scheme Cashflows

OBR Budget 2010 forecast: net cash expenditure

Year	Net cash expenditure (£bn)	Benefit payments (£bn)	Contributions received (£bn)
2008-09	3.1	22.5	19.4
2009-10 (estimate)	3.1	24.3	21.2
2010-11 (forecast)	4.0	25.4	21.3
2011-12 (forecast)	5.1	26.8	21.6
2012-13 (forecast)	5.8	28.3	21.5
2013-14 (forecast)	7.3	29.9	21.5
2014-15 (forecast)	8.9	31.3	21.4
2015-16 (forecast)	10.3	32.9	21.6

Source: OBR

a Forecasts from 2012-13 onwards include a £1 billion saving from cap and share.

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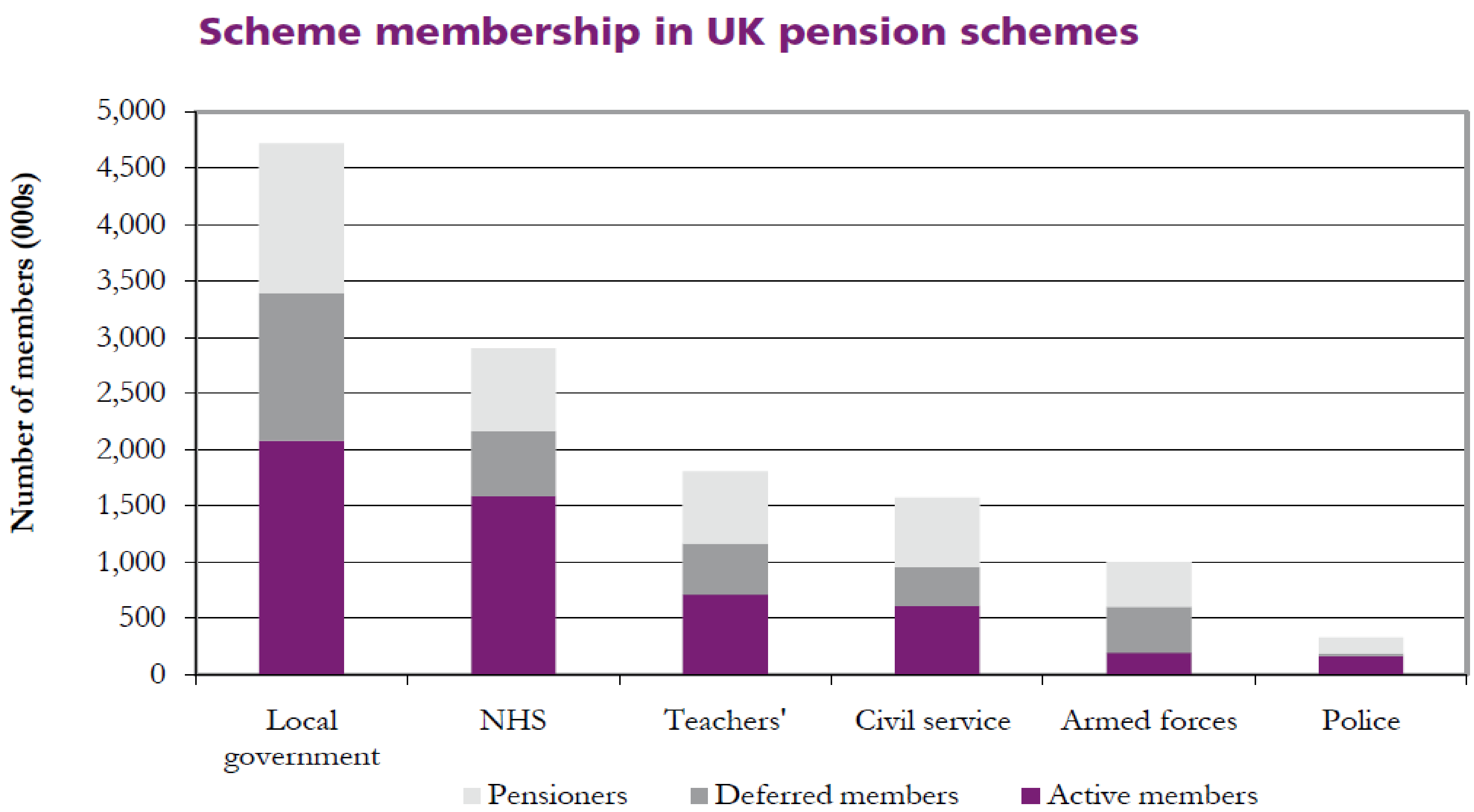
What does this mean for LGPS?



Source: IPSPC analysis of resource accounts and scheme data returns

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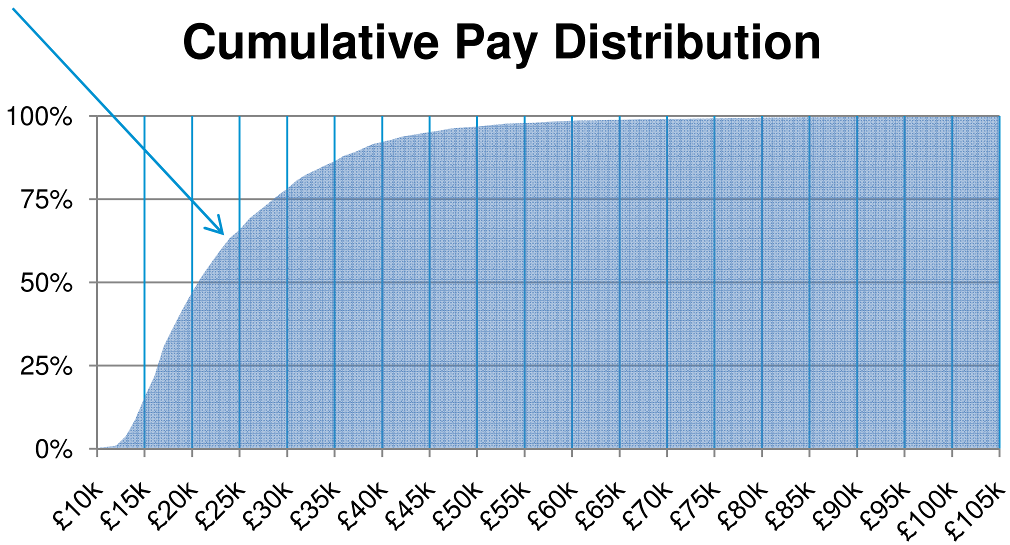
What does this mean for LGPS?

- Typical LGPS Fund



Percentile	FTE	PTE
10%	£14,309	£3,486
25%	£16,393	£8,285
50%	£20,647	£16,718
75%	£28,636	£25,557
90%	£37,685	£35,718
Average	£23,961	£18,555
Median	£20,647	£16,718

- If £24k is starting point then extra 3% to be funded by just over a third of membership

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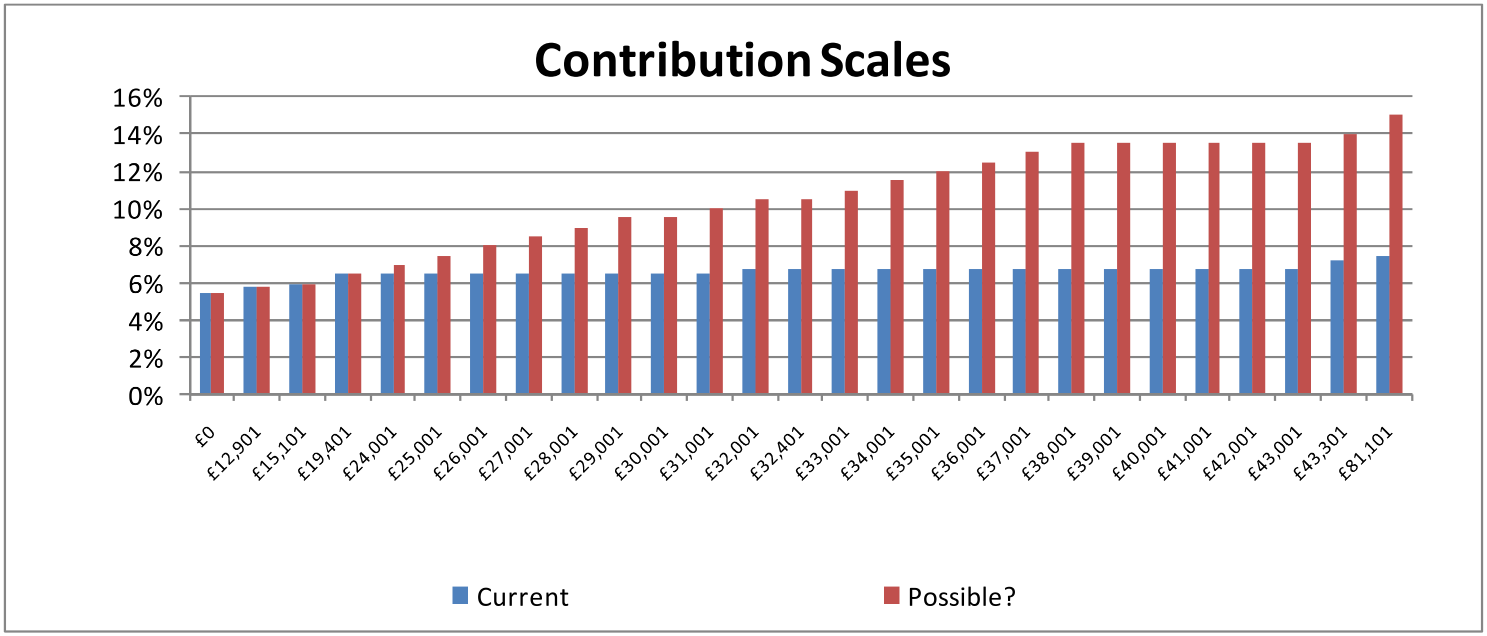
What does this mean for LGPS?



- Too much to ask?
- Other ways?
  - Increasing retirement age to 66 would reduce 3% to extra 1.5% ish
- Lower threshold to £18k?

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Hutton missed a trick or two?

- Average earnings revaluation
  - Bigger pensions for low flyers
  - Lower pensions for high fliers
  - Consistent with GDP and affordability
- CPI revaluation (with higher accrual rate)
  - Bigger pensions for leavers
  - Lower pensions for stayers
  - Equal treatment of leavers and stayers
  - More pension (initially) for more contribution

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Hutton missed a trick or two?

- Accrued rights
- Maintaining final salary link
  - "Safe" definition of accrued rights
  - More complexity
- Average earnings or CPI increase?
  - More than pay increases short term
  - Simpler
  - Less costly long term if CPI
- Really tricky stuff to follow
  - Agreeing the detail.....
  - ...by 2015?

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Questions and Discussion

Graeme Muir FFA