

A quick guide to

selecting a pension scheme for automatic enrolment

Information
for
employers

Changes to the law on workplace pensions mean that every employer in the UK has to automatically enrol certain members of staff into a workplace pension scheme.

What you need to do

You will need to start preparing for automatic enrolment soon, if you haven't already. If you need to get a pension scheme for automatic enrolment, this guide provides information on the options available to you and the areas that you should focus on when selecting a pension scheme.

How does a workplace pension scheme work?

A workplace pension is a way of saving for retirement which is arranged by an employer. Contributions to this pension scheme can come from three places:

1. The employer contributes a percentage of the member of staff's salary
2. The member of staff contributes a percentage of their salary
3. Tax relief from the government

The amount of income that members of a pension scheme get at retirement will depend on:

- ▶ how much has been paid into the scheme
- ▶ how investments perform
- ▶ the age at which members retire and how long they have been members of the scheme

What types of pensions are available?

There are two main types of pension scheme:

- ▶ **Defined benefit (DB) pension scheme.** These are sometimes called 'final salary schemes'. A DB pension scheme is one where the amount paid to the member of staff is based on the number of years they've worked for you and the salary earned rather than the value of investments.
- ▶ In **defined contribution (DC) pension schemes** (sometimes referred to as 'money purchase schemes'), the employer and member of staff pay in a set amount each month which is invested to build up a retirement fund. The majority of employers are likely to use a DC scheme for automatic enrolment.

Which type of pension scheme should I choose?

DC schemes are increasingly used by employers as they offer a cost effective way to enrol their staff into a pension scheme. The type of scheme most likely to be available to you is a scheme run by a large, specialist provider that is designed to be used by many different employers. This may be known as a 'group personal pension' or a 'master trust'.

There are a number of different providers and options available to you when choosing a DC scheme. This section explains what these are and where to find more information.

Government scheme

The National Employment Savings Trust (NEST) is a pension scheme that has been established by the government and has a public service obligation to accept all employers that apply to join it. You can find more information at www.nestpensions.org.uk.

Master trusts and group personal pensions

Master trusts and group personal pensions are types of DC schemes that are designed to be used by many different employers. They tend to be run by large specialist pension providers. Because of their size and the way they operate, they generally cost less and require less involvement from employers compared to other schemes. Master trusts are run by a board of trustees and group personal pensions are run by financial service companies, eg insurance companies and investment managers.

Schemes with master trust assurance

The trustees of some master trusts have had their pension schemes independently reviewed to prove they meet the standard of good administration under the master trust assurance framework developed by the ICAEW (Institute of Chartered Accountants in England and Wales) in association with us. A list of trustees who have said they have master trust assurance and are open to small employers looking for a scheme can be found on our website at www.tpr.gov.uk/finding-a-provider.

Schemes listed by other industry bodies

Other schemes are available and information about pension schemes run by trustees can be found on the National Association of Pension Funds (NAPF) Pension Quality Mark website at www.pensionqualitymark.org.uk/pqmreadyschemes.php.

Group personal pensions are regulated by the FCA. The Association of British Insurers (ABI) has a list of insurance companies that belong to its organisation who provide schemes, at www.abi.org.uk/Insurance-and-savings/Products/Pensions/Saving-into-a-pension/Automatic-enrolment/Providers.

What do I need to look for in a pension scheme?

If you currently have a pension scheme (perhaps called a stakeholder scheme), you should check whether you can use it for your existing members. You should ask your scheme or you can use our tool to check, at www.tpr.gov.uk/qualifying-schemes. If you can't use your existing scheme, you'll need to choose a new one that meets the requirements of automatic enrolment.

Whether you are intending to use your current pension scheme for automatic enrolment or choose a new one, there are a number of aspects that you will want to consider:

Can the scheme be used for automatic enrolment and will it accept you?

To be used for automatic enrolment the scheme has to meet certain criteria, eg it does not require members to do anything to become active members of the scheme or to make investment choices.

Other requirements that the scheme should meet include being an occupational or personal pension scheme and being tax registered. In addition, there are minimum requirements regarding the level of contributions that must be paid into the scheme. These requirements depend on the type of scheme it is.

Some schemes offered for automatic enrolment may only accept employers with a minimum number of staff or who have staff above a certain level of earnings. Check with the provider if they will offer a pension scheme for all your eligible staff.

Will the pension scheme work with my payroll?

If you use payroll software you should check that it is designed to carry out all the automatic enrolment tasks. If it doesn't, you should consider updating your software. Ask your payroll or pension provider if they have a checklist of the information they require and the tasks they will carry out for you.

Speak to your payroll provider and ask them if your chosen pension scheme will work with your software.

For more information on checking your payroll go to www.tpr.gov.uk/payroll.

Will the scheme generate letters for my staff?

You have to write to your staff to tell them what is happening and how automatic enrolment affects them. Some pension schemes may offer to do this for you. If the pension scheme doesn't do this, we have letter templates which you can use, at www.tpr.gov.uk/writing. Alternatively, your payroll provider may offer this service.

If English is not the first language of your staff, you may want to consider whether the scheme will be able to provide communications in other languages.

What level of information and support will the pension scheme give me and my staff?

Pension schemes may offer you administrative support services such as processing opt-ins on your behalf, assessing your staff for automatic enrolment or providing dedicated support for your ongoing duties.

For your staff, it's important that the pension scheme you choose provides them with information about their pension savings. The scheme should regularly send communications to you and your staff. Some schemes may offer more online services too. If this is the case it should clearly explain:

- ▶ how much money they have saved
- ▶ how their investments are being invested and how they have performed
- ▶ what their projected savings will be at retirement
- ▶ how much of their contributions will be taken in charges
- ▶ whether the desired retirement income can be achieved at the current rate of contributions

Without this information, your staff will find it difficult to understand whether or not they are saving enough to give them the income they would like when they retire. Annual statements and other communications should help them understand how they are progressing towards their desired pension income.

How is money invested?

Any scheme that you use for automatic enrolment must have a default investment arrangement. This contains the investments that will be automatically selected if your staff don't make a choice about them. You may need to consider whether the scheme offers investment options that suit your particular staff needs, such as ethical funds or funds that are compliant with Sharia law.

What about costs and charges?

There will be a charge paid by scheme members. Charges paid out of member savings in default investment arrangements are capped at 0.75% per annum of the member's fund.

Some schemes may charge you for the cost of setting up a pension with them. The charges should reflect the services provided.

It is important that you weigh up the costs and charges paid by you and scheme members with the level of services provided by the scheme, as some of the services may make running automatic enrolment easier for you over the long term.

How do I know that the pension scheme is being well run?

The skills, knowledge and processes of the provider running your pension scheme are critical. If they are making decisions about investments for the scheme they will be under legal duties to ensure they have the knowledge and competence to do their jobs.

Group personal pension providers are regulated by the FCA and need to be approved to offer pensions and other financial products.

Trustees of master trusts are regulated by us and need to meet minimum standards of knowledge and understanding. Investment managers who work on behalf of group personal pension providers or the trustees of master trusts are regulated by the FCA.

When running your pension scheme, the provider will sometimes use a third party, eg an external investment manager or administrator. The pension provider, or the trustees in a master trust, retains ultimate accountability for the work that third parties carry out on their behalf.

Need help choosing a pension?

You could speak to a financial adviser about finding a scheme. The following private sector organisations may be able to assist you with finding a financial adviser. Please note that these organisations are not endorsed by government and the links to their websites are provided for information only.

- ▶ www.unbiased.co.uk
- ▶ www.vouchedfor.co.uk/auto-enrolment

If you have an accountant or employee benefit consultant (EBC), they may be able to help you to find a scheme or an adviser that can help.

How to contact us

Napier House
Trafalgar Place
Brighton
BN1 4DW

customersupport@tpr.gov.uk
www.tpr.gov.uk

www.trusteetoolkit.com

Free online learning for trustees

www.pensionseducationportal.com

Free online learning for those running public service schemes

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