



Aquila Heywood

Aquila Heywood's response to DWP's Consultation Paper on Technical Changes to Automatic Enrolment



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1 Introduction

We welcome the opportunity to respond to DWP's consultation on Technical Changes to Automatic Enrolment.

Our comments are set out in this document. To put our response in context, we have provided details about Aquila Heywood and our customers in the Appendix.

2 Our response to the consultation

2.1 Supporting the proposed changes

We welcome the changes proposed in the consultation. We very much support the focus on making the automatic enrolment process simpler and easier to operate for employers.

We believe that the communication with employees could be simplified further into one standard document that provides employees with all the details that they need at the employer's staging date (or the employee's start of employment, if later).

2.2 Our main concern - timescales

Our main concern is the timing of the changes. Implementing the changes in April 2015 provides employers, their advisers and pension schemes with a very limited timescale in which to make the necessary adjustments. Our concerns are exacerbated by the fact that pension schemes, advisers and payroll providers will need to manage a number of other major changes to pensions by April 2015.

A possible way forward would be to implement the changes for employers reaching their staging date in a particular month (perhaps June is more achievable than April), but allowing employers who stage before that date the option to continue with their existing automatic enrolment processes for a period (perhaps six months).

Another alternative worth considering would be to make the changes to the automatic enrolment processes 'permissive' rather than mandatory for a period, thus allowing employers that have already started their automatic enrolment (or re-enrolment) processing to use existing processes rather than enforce the changes to be implemented fully on a set date.

2.3 Responses to the questions asked

There are a number of questions in the consultation on which we feel other experts are better placed to comment. Therefore, we have addressed only questions where we feel we have the knowledge and experience to answer.

2.3.1 Alternative quality requirements for Defined Benefit schemes

Q1. Does the level of the alternative test deliver broad equivalence with the Test Scheme?

We would support the new alternative test being based on the cost to the scheme of the future accrual of active member benefits. Indeed, this is the same calculation as required for the cost cap for public sector schemes from April 2015.

We do not have a view on whether the proposed level of the test is broadly equivalent with the Test Scheme.

Q2. Will these variations be helpful to employers? Are they still valuable even though they add some complexity to the test? How many employers do you think will take advantage of these variations?

We believe that these variations will be useful to employers with different definitions of pensionable earnings. However, DWP may wish to consider more consistent definitions across DB and DC schemes (and indeed Defined Ambition schemes), especially as employers make the transition from one type of scheme to another.

Q3: Does this definition meet the needs of schemes? Are there scenarios where this definition would create additional work for schemes/employers? Is the default period of 12 months an appropriate period for schemes which may not have an actuarial valuation or control period?

We believe that the proposed definition is appropriate.

Q4: Does this definition fit with existing practice? Are there any circumstances in which it would cause problems or additional work?

There are potential problems with the definition, as scheme benefits are accrued to scheme normal retirement age, but automatic enrolment requires benefits to be accrued up to State Pension Age (which may not be aligned with the scheme normal retirement age).

Q6: Does this fit with existing practice and provide simplicity? Are there any circumstances in which it would cause problems or additional work?

There may be circumstances that require additional work, for example where the member has the right to exchange an attaching dependants' pension for higher individual pension.

2.3.2 Proposed changes to the information requirements for employers

Q10: Does revoking regulation 17 and amending regulation 21 reduce the practical burden of information requirements for employers?

We believe that the changes proposed will reduce the burden of information and make the automatic enrolment process a simpler process for employers.

Q11: Will these amendments enable the employer to combine the information to employees within a single communication and remove the need to assess on a continuous basis?

The regulation as drafted amalgamates communications for non-eligible jobholders and workers, but there are still separate duties for eligible jobholders and employers must still assess employees to determine whether they are eligible jobholders, and arrange for active membership, should they qualify.

We believe that a single standard communication could be developed that encompasses:

- Informing the employee of the employer's staging date (where relevant)
- Details of the scheme that the employer is using for automatic enrolment
- Eligibility requirements for being enrolled in the scheme automatically
- Date that employees will be enrolled automatically, should they satisfy these criteria (allowing for postponement where necessary)
- Explanation that employees can join the scheme from the staging date (or the date joined company) and that, if they earn more than the statutory minimum then, they will also qualify for a contribution from their employer (this would cover the rights for non-eligible jobholders and workers)
- Details of the opt-out process as set out in the amended Schedule 2

This document would be provided to employees on the later of the employer's staging date and first joining. This would provide all employees with the information that they need in a timely fashion and prevent any confusion as to why deductions are being made from an employee's earnings once they are enrolled automatically.

Q12: Will employees receive the information that they need at the right time?

Our understanding is that the proposed changes do not involve any changes in the timings of when information should be provided. Accordingly, employees should still receive the information at an appropriate time.

Q13: Does amending these regulations reduce the practical burden of information requirements for employers?

The changes do reduce the burden of information required; however, by requiring additional information to be provided if postponement is being applied, the burden is still overly complicated. We believe that our proposed approach set out in our answer to Q11 addresses this issue.

Q14: Will employees receive the information that they need at the right time?

As the changes do not involve any changes in the timings of when information should be provided, employees should still receive the information at the right time.

Q15: Would the removal of the notice under regulation 33 reduce the practical burden of information requirements for employers?

Removing this notice should simplify the information requirements for employers.

If the automatic enrolment information could all be contained in one standard document, employers may well prefer to send a standard communication to all employees, rather than segregate them out.

Q16: Is it agreed that the notice under regulation 33 serves little purpose and can be removed without any risk to employees?

We agree that this notice is superfluous and should be removed. Employers may wish to communicate with active members, but it should not be a statutory requirement.

Q17: Would the removal of paragraphs 2 and 3 be welcome and help get away from individualised communications thereby reducing administrative costs for employers?

We do not support removing these information requirements because:

- If the employer is not postponing automatic enrolment, eligible jobholders will not know when they are being automatically enrolled.
- Employees may have a need to know the scheme into which they have been automatically enrolled, especially if they need to obtain information about the scheme.

For small and micro- employers, this information should not vary across their workforce, and could be incorporated into one standard communication for their employees.

Q18: Are there any risks to the employee in not receiving the information in paragraph 2?

Employees may need to know their automatic enrolment date; otherwise, the first time that they may be aware of when they have been enrolled is when deductions are made from their salary. We believe removing this information does not simplify the automatic enrolment process, and could result in more queries to employers by removing this, than will arise by retaining this information.

Q19: Is there a risk that the employee may not receive the information in paragraph 3 from another source?

We believe that the employee will, by law, receive communications from the pension scheme at least once a year, which will provide the information already covered in these paragraphs.

Q20: Although the draft regulations make no change to paragraph 10 of schedule 2, would further details of where the opt-out notice may be obtained be useful for employees?

We do not feel that additional information needs to be provided to employees about the opt-out notice. Employers just need to know where to obtain opt-out notices and what to do with them.

Q22: Is the new consolidated paragraph 18 clear enough to both types of employee (jobholder and worker) who will need to distinguish whether they fit into paragraph 18(a) or 18(b)?

The new paragraph is clearer but contains references to the Pensions Act, which many employees would not understand and would therefore make it difficult for them to judge the category into which they fall.

A simpler more unified statement that covers all employees, as outlined in our response to question 11 above, may be easier to understand and contain all the details that all employees need.

Q23: If the actual figure for qualifying earnings under section 13(1)(a) PA 2008 is not provided in the statement in paragraph 18, is there a risk that employees will not understand the requirements and may stay out of pension saving?

We believe that it will be easier for employees to understand the communication and make the document less complex if the actual figures are contained in the statement.

Modern parameterised solutions should be able to produce communications that include this figure with the correct annual figure. We believe an annual figure should be sufficient for employees to understand the communication.

Q24: Does the removal of this paragraph strike the right balance between reducing the load on employers and placing the onus on the employee to find out more information about pension saving?

There is a risk that, by removing this paragraph, the employee will not know where to go for further information on pension saving, especially for older members who are approaching retirement. However, a lot of this risk has been mitigated by the introduction of the requirement for signposting members to the guidance guarantee.

2.3.3 Reducing the pieces of information coming from an employer

Q25: Is the aspiration of 3 communications realistic and workable?

As outlined earlier, we believe that it may be possible to accommodate all the information required in one document that is simple and easy for employees to understand, as well as including all the relevant information that they need on automatic enrolment.

Q26: Will the overall proposed changes to the information requirements bring simplicity to the automatic enrolment process and with it a reduction in administration and costs for employers? If so, what is the average saving for an employer due to a reduction in the administrative burden?

The proposed changes will simplify the process, which should, in turn, reduce the overall costs of automatic enrolment. We are not in a position to quantify the average saving.

Q28: Can these changes be communicated to employees within existing material?

These changes could be communicated within existing material, with the addition of a simple paragraph explaining who will be enrolled automatically.

Q29: Is there any risk that the overall consequence of these amendments may cause confusion or detriment to the employee?

There may be some confusion for employees, especially where they have received previous communications from employers that have already been through the automatic enrolment process. However, we believe that the simpler document and benefits to employers and employees that have not yet been through the automatic enrolment process should outweigh any risks of any confusion or detriment.

2.3.4 Exceptions to the Employer Duty

Q30: Do you think that this will be a helpful exception, particularly for small and micro employers? If not, why not?

The exception is a very useful addition to the legislation, although we expect that this will be of more benefit to employers with a larger staff turnover; this may not encompass small and micro- employers, but is still a change that we welcome.

Q32: Can this exception be communicated to employees within existing material?

We believe that this exception could be communicated within existing material with the addition of a simple paragraph explaining who will be enrolled automatically.

Q35: Do you think that this exception should be extended to other 'end of employment' situations, for example, where a fixed-term contract is coming to an end? What do you think the advantages or disadvantages would be to this approach?

It may be useful to extend the easement for fixed-term-contract employees where the remaining term of the contract would result in the employee not accruing a significant benefit, but applying postponement will not take the deadline past the end of the employee's employment.

For example, this could happen where the employee has fewer than six months remaining from the employer's staging date.

Q36: Do you think this exception will help to simplify the automatic enrolment process for employers, particularly small and micro employers?

We believe that this exception will help to simplify the automatic enrolment process. In the public sector, there are numerous small employers to whom the contract joining process will apply. The benefits of this exception for small and micro- employers will probably be of greatest benefit to such employers.

Q37: Do you agree that applying this exception to all people who have left a qualifying scheme (as opposed to just contract joiners) will simplify the process for employers?

We believe that applying the exception to all employees who have left a scheme simplifies the process for the employer and makes the process easier to understand and apply.

Q38: Can you foresee any negative consequences for employers or employees?

There are numerous minor negative consequences of this exception, but these are more than offset by the benefits of simplifying the automatic enrolment process for employers.

Q39: Do you think that 12 months is a suitable timeframe for restricting the exception?

We believe 12 months is a suitable timeframe for restricting this exception. Any shorter would not produce sufficient benefits to the employer, and any longer could result in employees never joining pension savings.

Q41: Can this exception be communicated to employees within existing material?

We believe that this exception could be communicated within existing material, with the addition of a simple paragraph explaining who will be enrolled automatically.

Q43: Do you think the exception should be this wide or restricted to certain protections, for example only where further pension accrual could jeopardise an employee's tax status?

We believe that the exception should be this wide. Any employee that has a tax-protected status, and can continue to accrue future benefits, will still have the right to opt into pension savings. In addition, we believe that employees should be able to indicate that they wish to be excluded permanently from automatic enrolment for any given employment.

Q44: Will the proposed exception as drafted help reduce the administrative burden and costs for employers by allowing these employees to be kept out of the automatic enrolment process altogether? If so, what is the average saving for an employer due to a reduction in the administrative burden?

The exception will not reduce the administrative burden on employers; it may even increase the burden, as it will involve employers having to segment their workforce further.

However, given the limited likelihood of employees in small and micro-employers having a tax-protected status, and the risks to those employees at larger employers likely to have a tax-protected status, we believe that this exception is very much needed.

Q46: Can this exception be communicated to employees within existing material?

We believe that this exception could be communicated within existing material, with the addition of a simple paragraph explaining who will be enrolled automatically.

Q47: Is the proposed exception a welcome easement for employees who have tax protected status?

This exception will be very welcome by employees with a tax-protected status, as it will prevent them having to go through the opt-out route.

Q48: Does the benefit of having this exception for employers outweigh the risk to employees receiving no information about their right to opt in?

Individuals who have built up enough pension savings to warrant having a tax-protected status will typically be more engaged savers, potentially with their own advisers. Therefore, should they wish to join pension savings, they will likely be more aware of their rights, and we believe that the benefits far outweigh the risks.

Q49: Does placing the onus on the employee and the proposed changes to HMRC and TPR guidance sufficiently deal with the practical problem of the employer knowing of the individual tax status as well as what the employee needs to do?

We believe that placing the onus on the employee in this situation is the correct allocation of responsibility, and that the changes proposed are proportionate and appropriate.

One point we would make is that, where the employer had a scheme in place before their staging date, the employee may already have informed the scheme of their protection status and so could also assist the employer in identifying employees to whom this exception applies.

Q56: Do you think an exception for employees who flexibly-access their pension rights would be welcomed by employers or considered appropriate given the proposed changes to the tax rules from next April?

We believe that an exception should be applied to employees who have accessed their pension flexibly.

There are risks associated with enrolling such employees automatically, especially the fact that the employee will be subject to penalties if they do not inform the new scheme that they are subject to a reduced annual allowance. These employees will still be able to opt into the new scheme and carry on pension savings.

3 In conclusion

We welcome the changes proposed in the consultation. We very much support the focus on making the automatic enrolment process simpler and easier to operate for employers.

We believe that communication with employees could be simplified further into one standard document that provides employees with all the details that they need at the employer's staging date (or the employee's start of employment if later).

Our main concern is the timing of the changes. Implementing the changes in April 2015 provides employers, their advisers and pension schemes with a very limited timescale in which to make the necessary adjustments. Our concerns are exacerbated by the fact that pension schemes, advisers and payroll providers will need to manage a number of other major changes to pensions by April 2015.

We have proposed a couple of ways forward that could mitigate some of these concerns.

We would be more than happy to discuss any points raised in our response to the consultation.

Jerry Barnfield
Head of Market and Product Strategy
Aquila Heywood

4 Appendix - about Aquila Heywood

Aquila Heywood is the leading supplier of life and pensions administration software solutions in the UK. The pension schemes for ten million members in more than 200 major organisations are run using our administration software solutions. These solutions cover the whole range of available schemes including DB, DC, hybrid, career average, cash balance and stakeholder, as well as a full range of other group and individual products including Group Risk, Individual Protection, SIPPs and Wraps, Income Drawdown and Annuities.

Aquila Heywood provides solutions across a diverse range of markets including Financial Services, Third-Party Administration, Corporate and Public Sector pension schemes in the UK, Ireland and the rest of Europe.

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