Small and perfectly informed?

Insights into automatic enrolment and small employers

Foreword

The roll-out of automatic enrolment is gathering pace. 2015 sees 45,000 small and micro employers meet their duties.

Tim Jones,
Chief executive

By the end of August 2014 automatic enrolment had seen around 4.5 million workers enrolled into a workplace pension, but there's much more to come. NEST has grown rapidly, with over 1.5 million members and more than nine thousand employers participating in NEST at the two year anniversary mark.

2015 is a big year for automatic enrolment. The volume of employers meeting their duties is unprecedented, with over 45,000 staging in the year. NEST regularly tracks the progress of automatic enrolment and the workplace pension landscape, to understand how employers are preparing for automatic enrolment and the challenges they may face.
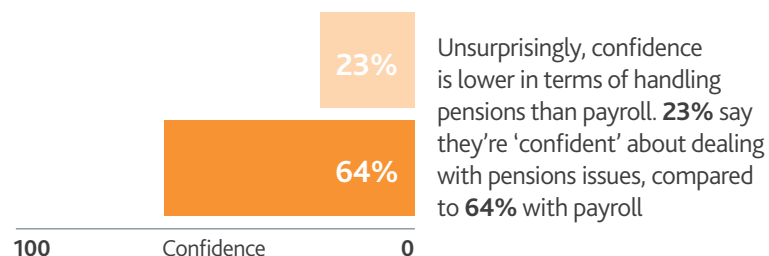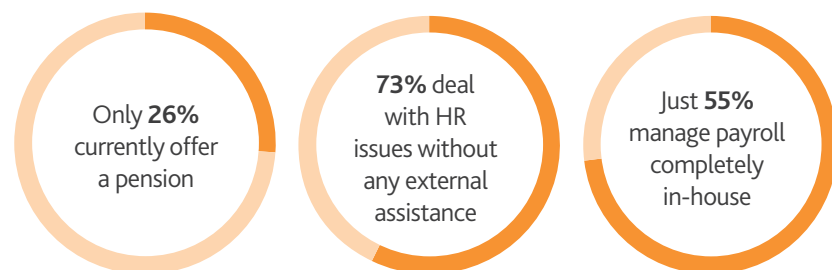
This research focuses on understanding the nuts and bolts of how small and micro employers manage their business processes. By understanding how they run things now we can get some real insights into how they may need to adapt in order to effectively and smoothly implement automatic enrolment.

Employers and intermediaries may want to use this research as a roadmap to give themselves a head start as they prepare to come under the duties. As well as helping employers identify processes that they need to review, this research can help advisers and intermediaries understand where their employer clients may need guidance and advice.

2015 is just around the corner and it brings with it an opportunity for millions more workers to access a workplace pension with their employers' help. The policy so far has proved very popular with workers who, like us, believe tomorrow's worth saving for™. Opt out rates remain low – at NEST our average opt-out rate is only 8 per cent. NEST will continue to play its part and we also want to work with others around the industry to help employers come aboard and ensure the successful implementation of automatic enrolment as we move into the next phases.

In-house pension systems

Few small and micro employers have in-house pension systems

Only **26%** currently offer a pension

73% deal with HR issues without any external assistance

Just **55%** manage payroll completely in-house

23%

64%

Unsurprisingly, confidence is lower in terms of handling pensions than payroll. **23%** say they're 'confident' about dealing with pensions issues, compared to **64%** with payroll

100   Confidence   0

What does this mean?

Although a majority of small and micro employers don't currently have pension processes in place in-house, the skills set in HR, employee benefits and payroll are transferable to implementing automatic enrolment. Competency with payroll processes can translate into competency in administering an automatic enrolment project, and existing processes can be adapted to deliver automatic enrolment through an in-house system.

However, employers need to consider that successful implementation of automatic enrolment will rely on having good worker data, so they may need to run a project ahead of their staging date to ensure workers' data is correct and up to date. The payroll system may also need to be updated to automatically identify 'eligible workers' and manage contributions. Employers will need to perform worker assessments and pay contributions every pay period.

A number of payroll providers and other software providers have developed automatic enrolment solutions, so it's worth employers talking to their existing software providers about how they can adapt their business processes. Employers will also need to make sure that their data is delivered in a format that their pension provider can accept. Most pension providers give clear details on the formats they use.

Employers are likely to approach payroll providers for help with updating their systems. Equally, a significant proportion of employers may decide to implement automatic enrolment by outsourcing. This presents an opportunity for intermediaries who want to offer this service.

Payroll integration

Payroll software integration may not be automatic for small and micro employers

72% of employers administer payroll in-house

17% partially in-house

55% completely in-house
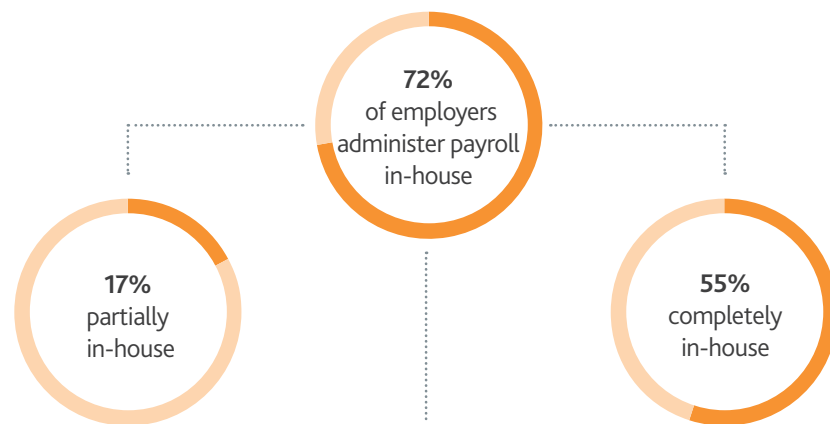
Of those:

54% pay for specialist software, such as SAGE

10% use free payroll software designed for administering payroll

13% use standard software packages such as Microsoft Excel

13% use some other form of payroll administration

12% don't know what they use

What does this mean?

To help them implement automatic enrolment successfully, employers may want to review their payroll software and talk to their payroll provider ahead of their staging date.
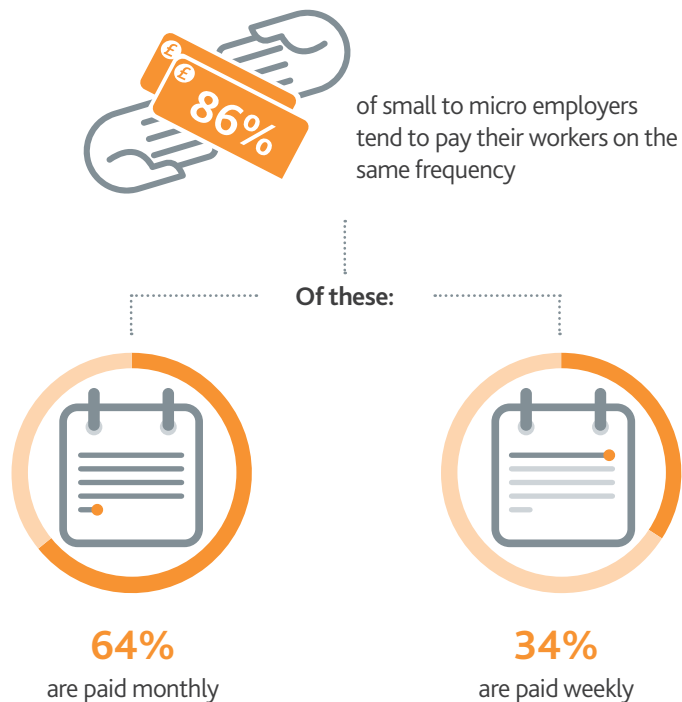
Those with specialist payroll software are more likely to have access to automatic enrolment modules that can integrate their payroll with their pension system. Many payroll providers have designed updates to their existing systems that interface between payroll and pension schemes. In some cases these payroll updates are being offered to employers free of charge.

Employers with specialist external software may want to talk to their software provider to understand whether or not they need to update their software and if this involves any cost.

Employers that have in-house systems may need to adapt them to help with the easy transfer of data from payroll to pension scheme. Depending on the level of expertise in the organisation, these changes may be possible in-house. If not, the employer may need to look to an adviser or software provider to make the changes to ensure that they're ready for automatic enrolment.

Payroll data management

Consistent pay periods may save time for small and micro employers

86% of small to micro employers tend to pay their workers on the same frequency

Of these:

64%
are paid monthly

34%
are paid weekly

What does this mean?

Automatic enrolment requires employers to check the eligibility of their workers every pay period and make adjustments to their contributions based on the outcomes of these assessments. An employer who pays all their workers once a month is only required to run assessments once a month.

An employer who pays their workers on different frequencies, whether this is monthly, weekly or fortnightly, may have to carry out the assessment process several times a month which is more complicated and potentially time-consuming.

Employers can make it easier for themselves by aligning their pay periods. Automatic enrolment isn't a 'one-and-done' process. Once the scheme is set up employers have to manage pension contributions and assessments every pay period. Employers may wish to review their existing payroll process to make the ongoing management as straightforward as possible.

The role of accountants

Accountants have a big role to play with small and micro employers
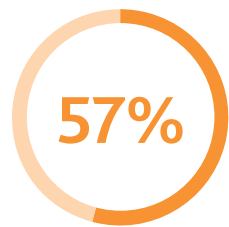
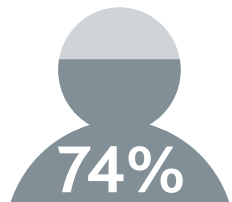**57%** outsource at least some of their regular business processes

Of which:

88% outsource some business processes to accountants

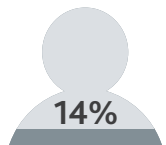One in four employers indicated that they rely on IFAs for outsourced business processes

74% of employers expect to turn to someone externally such as an accountant, IFA or payroll provider

The most common sources of support:

59% say they intend to look to an accountant

14% say they intend to look to an IFA

In this research the term 'outsourced business processes' means outsourcing totally or partially business processes related to one or all of the following: HR, employee benefits, pensions or payroll.
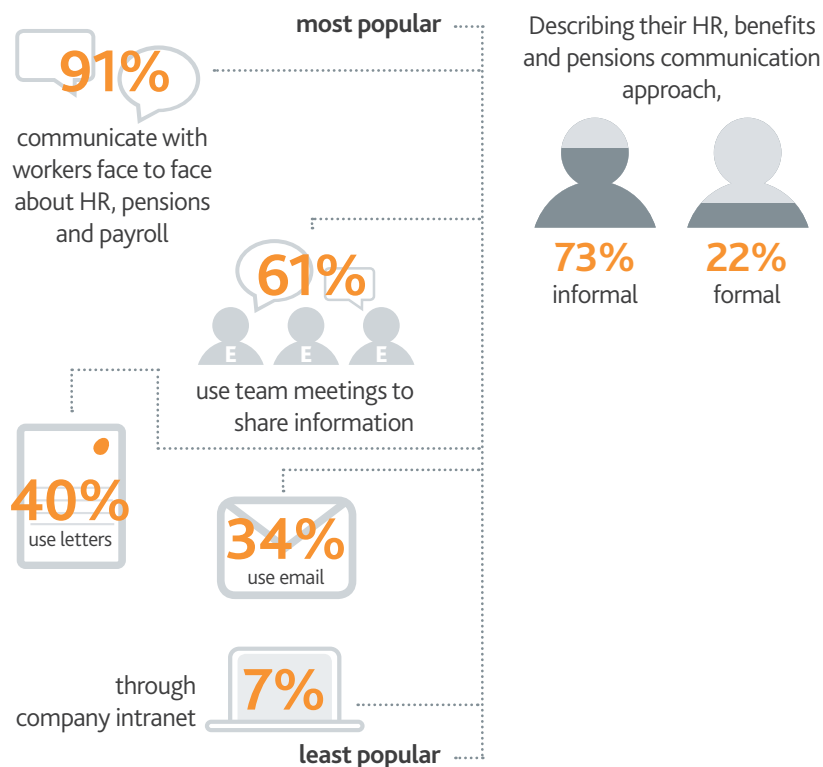
What does this mean?

Accountants have a vital role to play in supporting small and micro employers, as employers of this size plan on turning to accountants as their main source of support. IFAs will also continue to have a crucial role to play for employers staging from 2015 onwards.

It's clear to see that the advisory and intermediary market has an important role to play and that SMEs are planning to turn to both accountants and IFAs for help navigating their new duties. They expect support from the outset, with many expecting help as soon as they start preparations. They also require ongoing support, with a majority (60 per cent) expecting help with administration on an ongoing basis. Accountants and IFAs may want to develop their services so they're ready to meet this demand as we head into 2015.

Switching to written communication

Small and micro employers are likely to need to adopt written communication processes

most popular

91%

communicate with workers face to face about HR, pensions and payroll

61%

use team meetings to share information

40%
use letters

34%
use email

7%
through company intranet

least popular

Describing their HR, benefits and pensions communication approach,

73%
informal

22%
formal

What does this mean?

Communicating changes to workers is an essential aspect of an employer's duty. Employers have legal duties to inform staff of how their workplace pension is changing. They must write to their staff to tell them they've been automatically enrolled and that they have a right to opt out of the pension scheme. They need to explain that money will be deducted from their pay and what happens to that money.

The automatic enrolment duties clearly set out that the information they send must be in writing. Employers can send the communications by post or email. The letters must be sent individually, so a company intranet page won't suffice.

The existing methods small and micro employers currently use do not seem to be in line with the requirements of automatic enrolment. The smaller the business the more likely employers are to hold conversations, often informal, with their workers rather than use more formalised HR communication strategies. This is particularly the case for micro employers.

It's likely that most small and micro employers will need to develop new ways of communicating in order to comply with the legislation. The Pensions Regulator (TPR) and many providers like NEST have produced guides and templates to help. NEST has also developed a plain language 'phrasebook' to help employers communicate the changes to workplace pensions without using jargon that workers find difficult to understand.

Conclusion

Implementing automatic enrolment is likely to require changes to business processes, although many processes could be automated through payroll and other software. Employers may find that the skills they need to implement automatic enrolment are not so different from skills they use today in other businesses processes. However, it's critical that employers hold up-to-date and comprehensive data about their workers, including things like: date of birth, national insurance number, home and email addresses and details of each worker's pay.

The challenges employers may face

Our experience with employers automatically enrolling to date has taught us it's critical that HR and payroll processes are set up correctly for automatic enrolment.

Employers may face a number of challenges including:

› capturing and processing data

› assessing eligibility of different worker groups

› managing enrolments

› managing worker opt-outs

› defining and making payments

› ongoing administration.

There is help available for employers, both from TPR and pension schemes, and also from intermediaries such as financial advisers, accountants and payroll providers. You'll also find some useful sources of information at the end of this report.

Pension schemes like NEST provide lots of help and guidance on their websites, including the data formats NEST uses, communication templates and the different options for employers in managing their scheme on an ongoing basis. For example, if an employer wants a third party to administer NEST on their behalf, they can choose to appoint a delegate who can set up and run their NEST scheme through our delegated access function.

Useful information

NEST

To find out about NEST Connect visit
nestpensions.org.uk/nestconnect

To find out more about NEST visit
nestpensions.org.uk

The Pensions Regulator

Getting ready for automatic enrolment
pensionsregulator.gov.uk

Research background

This reports draws primarily on two surveys of small and micro employers conducted for NEST in 2014.

Employer surveys

Most of the research referenced within this report comes from a survey conducted by RS consulting. 301 telephone interviews were conducted with employers who had between 1 - 49 workers, excluding sole traders. Fieldwork took place between 16 January and 13 February 2014. Interviews were drawn from across a range of sectors. We interviewed the individuals who were significantly, if not entirely, responsible for making decisions about an organisation's pension provision and complying with the pension reforms.

The insights into payroll software are from a YouGov online survey with business decision makers from 514 employers who had 1 - 49 workers, excluding sole traders. Fieldwork took place between 16 and 21 July 2014. Interviews were drawn from a range of sectors.

Contact us

For specific enquiries email the media team at
media@nestcorporation.org.uk

NEST
Riverside House
2A Southwark Bridge Road
London
SE1 9HA