Summary

- Auto-enrolment has so far been considered a success story, with opt-out rates lower than predicted. However, AE is not even halfway complete, as SMEs and micro-employers are yet to hit their staging dates.
- Some SMEs have already been struggling to cope with various regulatory changes, meaning AE may be the 'straw that breaks the camel's back'.
- Incompatible payroll and admin systems, and varying data standards, are also considered challenges to successful AE.
- SMEs are recommended to approach advisers and providers as early as possible to ensure they have enough time to help. This also avoids the risks of SMEs being charged 'double time' fees.
- Some companies will set up schemes just for compliance purposes, with a view to review after their staging date. This has cost implications and can cause confusions with employees.

Race against time

Many SMEs are facing an uphill battle to meet their auto-enrolment implementation staging dates. And as the clock ticks, the pennies could start stacking up too, finds Marek Handzel

Up until now, generally speaking, auto-enrolment has been a success story. Opt-out rates have been lower than predicted and deadlines have been met in good time, prompting the Department for Work and Pensions to paste big figures on brightly coloured infographics to drive home the message that for the first time in a generation, UK workers are back in the habit of saving for their retirement.

But no amount of government propaganda can hide the fact that the auto-enrolment job is not even half complete. And it's about to become a whole lot harder as some 1.2 million employers with 60 or less members of staff begin hitting their staging dates.

A possible sign of things to come appeared in April this year, when The Pensions Regulator confirmed that it had taken action against Dunhelm Soft Furnishings. The company had underpaid contributions for its newly enrolled scheme members to the tune of £143,000, due to a malfunctioning payroll system.

As Creative Auto Enrolment managing director David White points out, Dunhelm is a company which should be able to call on the right resources to ensure compliance with the new regime. "So if they're getting it wrong," he says, "where does that leave the SMEs?"

Unprepared and in for a shock, says White, answering his own question. He has been in talks with the government recently, urging ministers to launch a new and sustained communications campaign aimed at smaller employers.

"They can't pretend that this is simple. SMEs are going to need help," he says.

Victims of circumstance

Chartered Institute of Payroll Professionals (CIPP) head of pensions Andy Agathangelou says that SMEs and micro-employers have already been battling to cope with various aspects of regulatory change, including the transition of PAYE to Real Time Information (RTI).

"For them, auto-enrolment is potentially the straw that broke the camel's back," he says.

"This is the sort of thing that can tip them into a state of imbalance and some of them are likely to [miss their] staging date. Because auto-enrolment is so complex, unless you're getting good support and advice, then you're going to struggle to cope with it."

If you add payroll systems that don't talk to each other, inefficient administration and poor data into the mix, says Agathangelou, then the scale of the challenge becomes daunting.

Agathangelou, who is also the founding chair of Friends of AE, a collaboration of individuals and organisations intent on sharing best practice and improving the auto-enrolment journey for businesses, says that data management has been testing the patience of employers and service providers alike.

"Auto-enrolment is so complex, (so) unless you're getting good support and advice, then you're going to struggle to cope with it"

"At the moment there isn't a widely accepted data standard that's free and open to use by everybody," he says.

"What that means, in operational terms, is that it makes it much harder for companies to comply than would otherwise be the case.

"To use an analogy someone once told me, at the moment it's as if every payroll and pensions company were like manufacturers of kettles and each had its own idea of what a three-pin plug should look like. That's how daft it is."

White agrees, complaining that this smorgasbord of standards has translated into a disproportionate amount of extra work for advisers.

This is a manageable situation if you have the advice available to you, but as Agathangelou warns, if SMEs don't get there early enough, then they'll find that all the IFAs and Employee Benefit Companies (EBC) they approach will already be dealing with every other SME in town.

Governance service provider PTL's client director Kim Nash says that it is crucial for SMEs to understand that they need to allow for a decent lead-in time before they stage.

"I also work on a master trust which services these smaller clients and we've got to have a cut-off point for people," she says. "If they're coming too late to the process then the answer has to be 'no' because we can't do everything we need to do to get them on board."

Some scheme providers have also been firm in not accepting new auto-enrolment member populations from current clients, leaving companies to find a new provider with capacity at short notice.

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Clearly, this puts them at risk of not meeting their obligations and facing a hefty penalty.

The costs

As well as possible fines, Standard Life has estimated that it could cost UK-based SMEs up to £34,000 to back-date their employees' contributions for three months if they have not enrolled their staff into a scheme in time.

But to avoid getting to that stage, they will need to spend surplus cash anyway. The trick, says Standard Life

head of workplace strategy Jamie Jenkins, is to engage with providers as soon as possible, to avoid becoming vulnerable to unexpected costs.

"If small businesses leave auto-enrolment too late, then they will be forced to approach providers at the last minute," he says.

"These providers are within their rights to charge double-time fees for such 'last-minute' engagements. This makes employers a 'distressed purchaser' where they lose their negotiating power with suppliers."

Additional costs can add up afterwards, even when a staging date has been met. The first extra outlay is one that employers could be consciously storing up for themselves, as Nash explains.

"One trend that is more common than many realise is that employers are just setting up a scheme now to comply, with a view to reviewing it after auto-enrolling.

"This means that you then have a cost implication if you decide to change things down the line and go through the whole transition process with members' money."

This is all very well, and even admirable. However, it could also lead to complacency. If employers believe that they will have bought time to think about their schemes and overall benefit packages by carrying out the bare minimum requirements to meet their staging date, then it could come back to hurt them.

"Take for example situations in which the impact on an employee contribution or take home pay could be a significant factor," says, communications firm Like Minds co-founder Nick Thorp.

"You're going to have to manage that from an employee perspective. They could approach an employer and ask: 'So what's happening here?' And if an employer turns around and says, 'well didn't you get that email telling you about auto-enrolment?', then that may not be received very well."

"To avoid that you need to engage people with the process early enough so that there's a creation of expectation and understanding over time, rather than it all being a rush in the last minute, which is where a lot of SMEs will probably end up because they're all busy people."

Competitive rates? (They're coming)

The industry is also rushing to meet expectations as it tries to alleviate the capacity crunch road block that SMEs could crash into.

"Providers are putting together off-the-shelf options so that you can go to a scheme and say: 'This is your package and you don't need to take any additional advice'. They are trying to fill that gap," says Nash.

Written by Marek Handzel, a freelance journalist