Summary

- Automatic enrolment has enjoyed a high success rate, with lower opt-out rates than expected.
- With re-enrolment now occurring with many companies, efforts are now being made to encourage previously opted-out staff to stay in the scheme this time.
- Continued non-compliance by companies, regarding re-enrolment, can lead to a large fine from The Pensions Regulator.

Second time around

Paul Beardwell explores the trends observed so far from the companies undergoing the re-enrolment process with its employees

Since 2012, when the first stage of auto-enrolment began, every business in the UK has had a duty to ensure that their employees are enrolled into a pension scheme.

Now that the auto-enrolment round has ended, with small businesses having generally completing the process by the end of 2016, the process of re-enrolment has begun. Aon DC commercial leader Anthony Kemp explains. "Every three years following an employers' original auto-enrolment staging date (or their last re-enrolment date) employers are required to assess their workforce. They need to re-enrol any eligible jobholders who have opted out, ceased contributions, or who are members of the pension scheme, but are not meeting the auto-enrolment 'qualifying scheme' minimum requirements."

The timescales involved in the re-enrolment of eligible employees are regulated and set by The Pensions Regulator (TPR). Its spokesperson states: "Employers must choose a re-enrolment date that falls in the three months either side of the first anniversary of their staging date, which is the date their workplace pensions duties started."

With this in mind, how are businesses coping with re-enrolment? What are the ramifications of non-compliance, and how can businesses prepare themselves for the re-enrolment process?

The re-enrolment process

All eligible employees in the UK were enrolled into a pension scheme. Whether an employee then chose to stay in the scheme or subsequently opt out was a matter of personal preference.

Kemp comments that "overall, auto-enrolment opt-out rates among our clients have settled at around 7 per cent, meaning 93 per cent of staff are in their company pension plan".

With tales like this generally echoed across UK businesses, of opt-out rates usually under the 10 per cent mark, the success of auto-enrolment seems undoubtable. When considering re-enrolment however, where employees who had previously opted out are then automatically placed back into a pension scheme, has there been any notable difference in retention?

Kemp says this doesn't seem to be the case. "From our own client base, we have not seen an increase in the proportion of opt-outs following re-enrolment, so it looks like the re-enrolment process is successful in getting people back into pension saving," he explains.

Non-compliance

While the majority of both companies and employees have got on board with the principles of auto-enrolment, what about those firms that have shied away from their responsibilities?

In August this year, The Pensions Regulator announced in their *Compliance and Enforcement Bulletin* that an unnamed London-based company was fined £350,000 for not complying with their re-enrolment responsibilities under the scheme.

Commenting at the time, TPR director of automatic enrolment, Darren Ryder, said: "This case demonstrates it's vital to carry out both ongoing duties and re-enrolment correctly. We will take action to ensure that not only are staff put into a pension but they continue to receive the correct contributions on an ongoing basis, and that those who opt out are re-enrolled correctly and given their right to start saving."

Indeed, the legal ramifications of a company not satisfying the requirements of the scheme can be very expensive.

For companies to comply with re-enrolment, records must be kept, staff must be informed, potentially additional contributions paid if previously opted-out staff opt back in during re-enrolment; all potentially expensive. But the legal ramifications of not doing so could cost far more.

As Kemp clarifies: "Employers can be fined for not complying with re-enrolment in the same way as not meeting their duties for auto-enrolment. If a company does not comply, initially a fine of £400 is issued and this must be paid within the period set out in the penalty notice. If the employer still does not comply, then a fine of a daily rate of between £50 and £10,000 could be levied."

Why opt out?

A business that is fully compliant may still see a proportion of staff eventually opting out of a workplace pension scheme. For some staff this may be a matter of affordability. Kemp offers that "individuals may not be able to afford the contributions that they must pay to be a member of a pension arrangement. This is more likely to be the case following the increases in the minimum contribution requirements over the past two years".

The Department for Work and Pensions offers some insight into the opt-out rate of employees. Its *Automatic Enrolment Evaluation Report*, published in 2018, states that: "Of the 12.7 per cent of new savers who stopped saving within the opt-out window between April 2014 and June 2018, 41.8 per cent were due to the end of employment, 43.6 per cent made an active decision to opt out, and becoming ineligible accounted for the remaining 14.6 per cent."

Factoring in the effect of affordability, the report also notes that older members are opting out at a higher rate. "A few opt-outs cited affordability as their main reason for leaving the scheme, either because they needed their take-home pay for immediate day-to-day expenses, or because they were saving elsewhere. Older workers tended to suggest that it was 'too late' to start a new pension: whatever the level of provision they had built up elsewhere, they believed they would not be able to save enough in this pension to make it worthwhile. This was due to the combination of a relatively low contribution rate and the anticipation that they did not have many years left of their working life," it stated.

Pasa DC Governance Working Group member, Rosie Lacey, explains that some lower-paid workers may keep opting out as they do not feel they would benefit from pension saving. "Affordability for those on low incomes and the income replacement ratio provided by the state scheme pensions for this group means they don't feel the need to save," she says. "Someone on an income of £18,000 will see an income replacement of around two-thirds, which is pretty good."

Making the process easier

For a company to ensure its obligations are met under the re-enrolment process a number of variables are to be considered. A common stumbling block that may be encountered is administration and record keeping.

"A common area of challenge we have seen is in identifying the in-scope population for re-enrolment. This population is made up of individuals that have left the pension scheme or reduced contributions for different reasons. Some have opted out for lifetime allowance reasons and could be exempt from re-enrolment, while often others will not have their reasons being recorded. In addition, the company will need to decide its position on all of the allowable exemptions, such as those opting out within the past 12 months," Kemp says.

To ensure that the re-enrolment journey is as pain-free as possible, Butler-Hodge highlights a re-enrolment tool on TPR's website that can help any company avoid the consequences of non-compliance.

Additionally, Lacey notes that many pension providers can help ensure the re-enrolment process runs smoothly. "If *[re-enrolment responsibility]* is not already with your provider it is a good time to move the responsibility to them. Most large trust-based schemes have already been through re-enrolment once before so should already refined or improved their processes. Automate *[processes]* as much as you possibly can".

Her advice to companies about to start re-enrolment is to "start the process in a timely manner. Most providers will do this for you, and don't be afraid of it, as the process is the same as the as auto-enrolment and any previous re-enrolment".

While companies shouldn't be afraid of starting re-enrolment, Ryder does point out that it is an important task. "Re-enrolment gives staff who opted out of their workplace pension a fresh chance to start saving, so it's an important task," he explains.

"Automatic enrolment has led to millions of new savers and we want to ensure this success continues. Our online re-enrolment tool will help employers continue to meet their legal duties so that staff continue to have the opportunity to save."

Written by Paul Beardwell, a freelance journalist