Automatic for the people

Auto enrolment introduces new regulations that will especially challenge smaller companies, writes **Anthony Harrington**

SAME DESTINATION: Employees will have to deliberately opt out or be enrolled

COMPANIES generally do not look favourably on new legislation that both increases their costs and adds new criminal sanctions for directors to be mindful of.

However, although the auto enrolment provisions for company pension schemes undoubtedly inflict the double whammy of increased costs and new criminal sanctions for corporates and company directors respectively, we have heard very little outrage being vented by employer organisations.

There are probably two reasons for this. First, it is hard to argue against all employees having the right to be part of a pension scheme.

And second, to many employers who have not yet woken up to the full implications of auto enrolment, the legislation seems like just another boring compliance task, to go with all the other boring compliance tasks that have come into vogue in recent years.

Of course, it is much more than this. Auto enrolment is a major attempt by government to shift some of the State's burden for caring for the elderly on to the private sector.

If we can be cajoled and bumped into putting money aside during our working lives to ensure that we are not penniless in old age, then the State would finally be able to get out from under the crushing liability of having to fund retirement from tax revenues.

Auto enrolment is all about reaching out to ordinary workers on modest salaries and sweeping them up, willy nilly, into the pensions net. The more who do actually save properly for retirement, the easier it is on the State, which can then focus resources on the poorest in society.

Experience round the world in countries such as Australia and New Zealand, which have had proportional representation for years, shows that by forcing people to make a conscious decision to opt out, rather than making a definite decision to opt in to the company pension plan, you vastly increase the number of people saving for retirement. The power of inertia is a wonderful thing, it seems.

However, inertia is not something that employers can afford to exhibit as far as planning for auto enrolment is concerned. In October, auto enrolment became a reality for the UK's largest companies, those with over 10,000 employees.

From there, the scheme is set to be rolled out to companies with ever diminishing numbers of employees, until, by 2017, even the local corner shop will be obliged to comply.

Joe Farrell, Managing Director of Farrell Financial Planning, argues there are two ways companies can approach the challenges of auto enrolment.

"Basically, they can treat it like an additional tax and do as little as possible in order to comply, or they can look on it as an opportunity to differentiate themselves from the competition and use it as a powerful tool for incentivising employees and recruiting top talent," he says.

Farrell warns that employers who simply see auto enrolment as an imposition placed on them by government and who do the absolute minimum that they are required to do by law are putting themselves in the position of taking all the pain associated with auto enrolment, without enjoying any of the gains it can bring.

"This is really something that companies of all sizes need to take advice over. Don't approach it as a box ticking exercise. This is something that you really need to grab with both hands and approach positively," he says.

> **"By 2017 even the corner shop will be obliged to comply**

One example of just how onerous and tricky the new regulations can be for employers concerns the clause that says that anyone who opts out of the scheme needs to be reoffered the chance to auto enrol every three years.

This is a statutory requirement and it can be a nightmare to implement in a firm with even a few tens of employees.

The employer has to have reliable, proper records of each employee, specifying the date on which they opted out, and has to track that record over time to be in a position to fulfil their legal obligation to re-offer auto-enrolment three years on. Forgetting is no excuse.

Paul Traynor, a director of Panacea Investments, warns that with the best will in the world, auto enrolment in a default scheme is not going to create a sufficient pension pot for most employees.

"Employees need to take advice to put themselves in a position to understand their potential requirements at retirement and what will need to be done above and beyond their participation in an auto enrolled scheme, by way of both savings and returns.

"They need to grasp the scale of what is required to generate a pensions pot capable of meeting their aspirations for retirement," he says.

To make it simpler for employees new to the idea of investing, the government has decreed that all employees have to be provided with a default pension investment scheme if they do not want to or do not feel able to, choose from a menu of available funds.

The scheme the Government has sponsored as the default fund of choice is the National Employee Savings Trust, or NEST.

As Graham Vidler, director of communications and engagement at Nest explains: "NEST has been set up specifically for automatic enrolment and is open to any employer to use.

"There is no charge for an employer to use NEST, and we have designed our systems and processes to make it easy for employers to use.

"Key features of NEST include low charges for members, clear communications, 24-7 access via our website and a bespoke investment strategy.

"NEST has an investment approach specifically designed for the needs of our members, based on detailed research of their characteristics and attitudes.

"Our default strategy – the NEST Retirement Date Funds – is designed to deliver realistic and sustainable investment growth while minimising the chances of losses.

"To reflect our diverse future membership, NEST's investment approach combines the reassurance of this carefully managed investment strategy for the majority who don't want to choose their fund, with a set of focused choices for members who do".

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