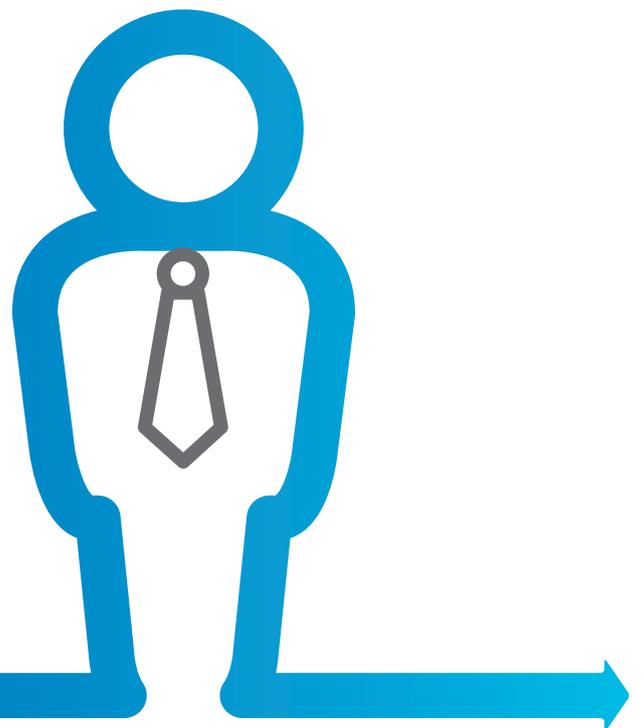


Automatic Enrolment – the needs of the SME employer

November 2015





Foreword

It's been three years since we launched The People's Pension. In that time, we've supported more than 8,000 employers to automatically enrol more than 1.7 million employees into a workplace pension scheme, many for the first time.

From January 2016, 1.8 million small and micro employers (SMEs) will start to stage. Most don't understand pensions, and don't want thinking about pensions to distract them from running their business or home. This presents a challenge for them, certainly, but also presents a challenge for the pensions industry. How best can we support SMEs to tackle the auto-enrolment (AE) journey?

Over the summer, we carried out extensive research with SMEs and their trusted business advisers (accountants, bookkeepers, payroll professionals and IFAs). We wanted to understand how they planned to approach AE, and the level of support that they would need.

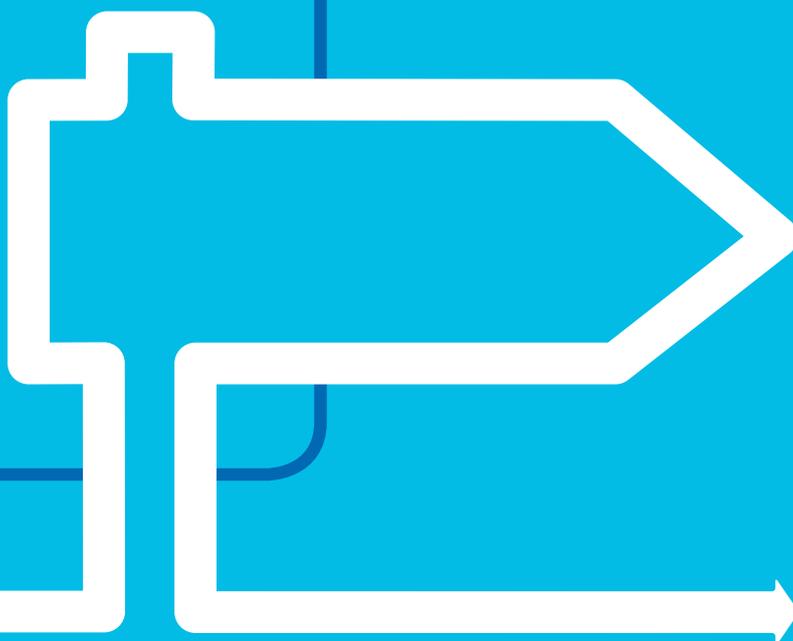
What we found backs up our experience of serving small construction employers. As a collective, SMEs don't have a clear understanding of what AE involves. And they want a high level of support.

For SMEs, support was top of their wish list. In fact, support (at sign up and ongoing) was seen as much more important than cost. Simplicity, a helping hand, and just being there. Doesn't sound complicated, does it?

We asked Research Works to summarise their findings, and the following is their report.

2016 and beyond will be challenging for small employers and the industry alike. We're looking forward to the challenge ahead, and to supporting thousands more employers to comply with their duties and millions more people to start saving for later life.

Darren Philp
Director of Policy &
Market Engagement



Summary of key findings

Research Works Ltd, on behalf of B&CE, the provider of The People's Pension, undertook qualitative research with SME employers and their business advisers (accountants, bookkeepers, payroll professionals) and IFAs to understand how SMEs would be approaching automatic enrolment (AE) and the level of support they would require to comply with their duties.

The research findings indicate that:



The research findings indicate that the SME marketplace does not share a coherent understanding of the automatic enrolment (AE) task.



SME employers typically started their search for a provider with an internet search of familiar, 'big brand' names. Most, however, soon became aware that the number of providers willing to support SMEs through the AE process was more limited than they had originally thought.



SME employers often asked their closest business advisers (accountants, bookkeepers and payroll professionals) for advice about which providers might support them to comply with their AE duties. SME business advisers typically then asked IFAs (either colleagues or independents) for advice about suitable providers. For SMEs, IFAs are, therefore a key source for information regarding providers.



Since SME employers were generally not familiar with the providers potentially willing to support them to comply with their AE duties, they wanted to know basic facts: Who are they? How long have they been established? What are their credentials? What are they offering me? And, in particular, what level of support are they offering me? SME business advisers (accountants, bookkeepers and payroll professionals) – and particularly IFAs – wanted to know more about providers' pension schemes: Where is the money being invested? What is their performance like?



The service offerings which were highly valued by SME employers and their closest business advisers (accountants, bookkeepers and payroll professionals) were typically focused on the element of support. All valued initial and ongoing support throughout the AE process and also, in particular, proactive support (for example, notification of changes to contribution levels and the completion of the Declaration of Compliance on their behalf).



Overall, responses to the idea of charging were largely phlegmatic across the SME employer and business adviser (accountants, bookkeepers and payroll professionals) audiences.

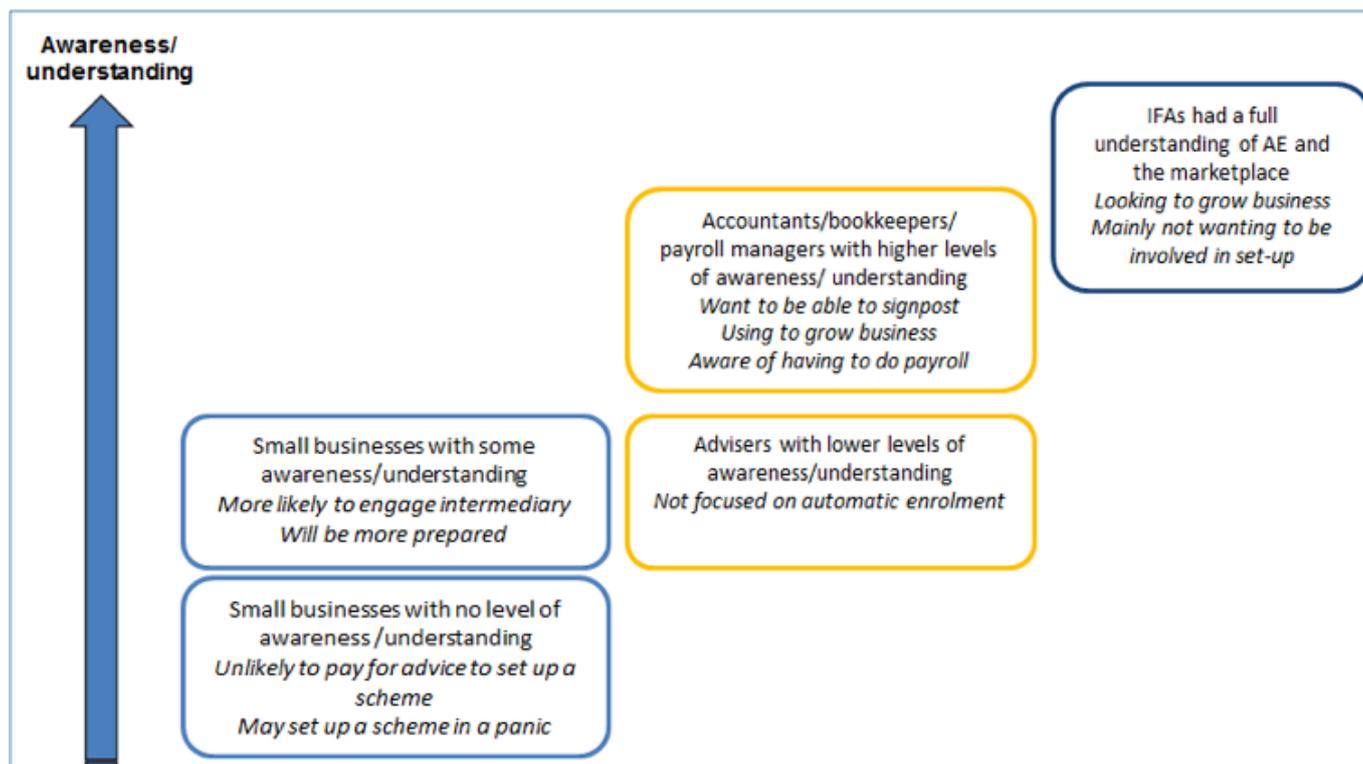


Respondents envisaged a charge of between £200 and £500 and clearly preferred a one-off, up-front charge to an ongoing monthly charge.

Main Findings

Awareness and understanding of AE

It was clear that both the SME employer and SME business adviser sample (accountants, bookkeepers and payroll professionals) showed variable knowledge about the tasks involved in complying with AE duties. It was also clear that SME employers and many of the SME business advisers (accountants, bookkeepers and payroll professionals) were generally unaware of the challenges involved in complying with automatic enrolment.



The exception to this was the IFA group. They were clear that the challenge for SMEs was likely to be finding a provider who would provide them with a pension scheme at a reasonable cost. This group was aware of the different type of provider offers available (e.g. 'full service' offers from AE consultancies, as well as online offerings from master trusts).

The process of finding a provider

SME employers indicated that they would initially start their search for an AE provider by searching the internet for familiar 'name' pension providers (for example, AVIVA, Legal & General, Scottish Widows, AEGON and Standard Life). A 'big brand' name was felt to offer reassurance:



"SME employers want to know AE has been taken care of. They want to trust a pension name, they want to know where their money is going."

(SME payroll professional)

Unfortunately, this search process created awareness that the number of providers offering pension schemes to SMEs was more limited than originally imagined. SME employers expressed frustration with this search process and felt that a list of pension providers who are prepared to support SMEs with AE should be readily available:

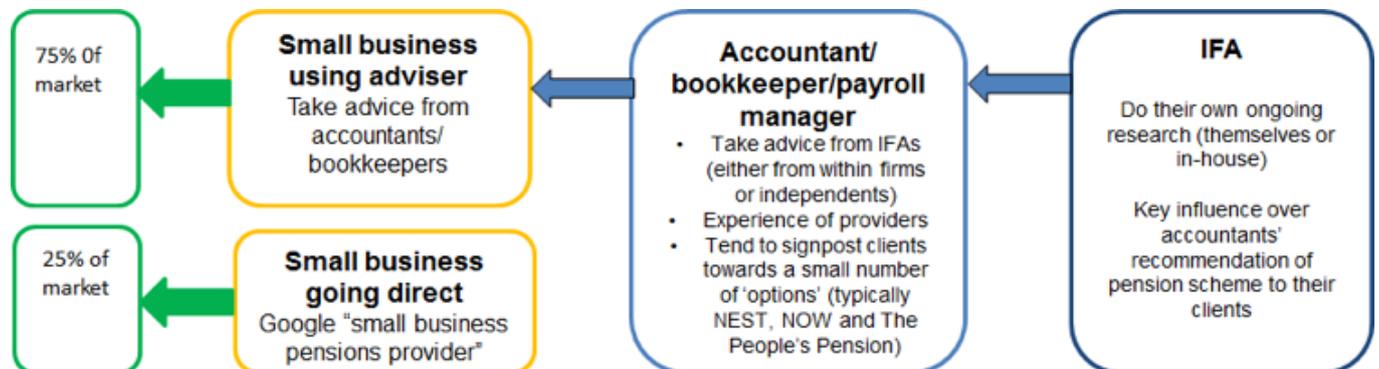


"It should be on the front page of the TPR website."

(SME employer)

At this point, SME employers generally asked their closest business advisers (accountants, bookkeepers and payroll professionals) for advice about which providers would support them with AE.

When asked for advice about potential providers, SME business advisers typically turned to IFAs for advice; either IFA colleagues within accountancy firms or independent IFAs. IFA knowledge about which pension providers are supporting SME employers with AE was based on their own research, as well as first-hand experience of the levels of service provided.



Word-of-mouth was therefore the most common channel through which the SME employer and adviser (accountants, bookkeepers and payroll professionals) groups became aware of pension providers who would support them to fulfil their AE duties.

In reality, the number of provider names mentioned through these word-of-mouth channels was often limited to NEST, NOW and The People's Pension. SME employers and business advisers (accountants, bookkeepers and payroll professionals) knew very little about any of these providers, other than that NEST is, in some way, associated with the government:



"NEST seems to be the fallback one."

(SME accountant).

None of these providers were the 'big brand' names that the SME employer and business adviser groups had expected to encounter when conducting their initial search for an AE pension provider.

SME employer and business adviser AE needs

There were two distinct groups within the SME employer sample, differing in terms of their approach to fulfilling their AE duties: the first prioritised simplicity and the second prioritised cost savings.

Those who prioritised simplicity sought a provider who would support them through the AE process, at a reasonable price:



“The providers that make it as easy as possible are more likely to be the ones that we will go with.”

(SME)



“The trick will be getting them to make it as simple as possible.”

(SME)



“For me, it will have to be something that is easy.”

(SME)

For those who prioritised cost savings, NEST was typically the preferred option. This group wanted to fulfil their AE obligations as cost-effectively as possible and therefore assumed that a provider who would not charge them anything must be the best option.

Access to a range of support options as required, was important to both SME employers, business advisers (accountants, bookkeepers and payroll professionals) and IFAs. For SME employers, the appetite for help and support was driven by a fear of the unknown:

For the business adviser group, the appetite for help and support was based upon experience. Several explained that complexities can arise when using online provider services, for example when uploading payroll data. In these circumstances, access to effective support in order to resolve difficulties was considered essential.

Key provider attributes

Since SME employers had not previously heard of the providers willing to support them to comply with their AE duties, they wanted to know some basic facts:

- Who are they?
- How long have they been established?
- What are their credentials?
- What are they offering me?
 - And in particular, what level of support are they offering me?

SME business advisers (accountants, bookkeepers and payroll professionals) and, in particular, IFAs, wanted to know more about the providers' pension schemes:

- Where is the money being invested?
- What is their performance like?

Service offerings valued by SME employers and business advisers

Respondents were asked to consider an idea for an online AE 'solution' for SMEs.

Positive responses were influenced by an appetite for help and support. Less positive responses were generally influenced by a lack of understanding about the range of tasks required to comply with AE duties.

- There was an extremely positive reaction to the idea that **the AE 'solution' might be able to complete an employers' Declaration of Compliance on their behalf**. Many felt that this was a key way in which the AE 'solution' could demonstrate that it was supporting SME employers and business advisers (accountants, bookkeepers and payroll professionals) to properly comply with their AE duties.
- **Initial and ongoing support options were considered to be an essential part of an AE 'solution'**. Both SME employers and business advisers expected that a range of support options would be available to them, including support options outside of office hours. Respondents explained that business administration tasks such as AE are often undertaken outside working hours, during evenings or weekends.
- **An initial assessment tool** was considered helpful, particularly by those amongst the sample who were not currently using AE-compliant payroll software. Software to support SME employers and their business advisers (accountants, bookkeepers and payroll professionals) to conduct an initial assessment was considered important, given the perceived complexity of identifying different categories of worker. For those in the sample who were already using AE-compliant payroll software, compatibility of the online 'solution' with a wide range of existing AE-compliant payroll software was a key issue.
- **Ongoing assessment** was another 'business-as-usual' task that was not top-of-mind for either SME employers or business advisers (accountants, bookkeepers and payroll professionals). Once again, all were focused on staging, rather than on completing ongoing duties. When prompted to consider this ongoing task, two key issues emerged: the importance of compatibility with existing payroll software, as well as the importance of a manual 'key in' option for those not currently using payroll software.

- **Support to communicate AE messages** to different categories of worker was also seen as important, particularly in relation to content. There was a preference for providing template letters to print out on paper and give to employees, especially for those with a small numbers of employees who wanted the letter to support a face-to-face conversation or for those who doubted that their workers had email addresses.
- **Communication regarding the statutory changes to contribution levels** was perceived to be extremely helpful by both SME employers and business advisers (accountants, bookkeepers and payroll professionals). Information about the range of different contribution options that the AE 'solution' could offer was of more interest to the IFA group. IFAs welcomed the flexibility to tailor their AE 'solution' to different clients' needs.
- **Support to keep employees informed about their pension** was not something that either SME employers or business advisers (accountants, bookkeepers and payroll professionals) had thought about before. Both groups were focused on complying with AE duties, rather than complying with ongoing pension administration tasks. Both SME employers and business advisers (accountants, bookkeepers and payroll professionals) needed to be prompted in order to recognize the importance of this ongoing duty.

Reactions to charging

Overall, responses to the idea of charging were largely phlegmatic across the SME employer and business adviser (accountants, bookkeepers and payroll professionals) audiences – an exception being the group of SME employers who were motivated by saving costs.

Respondents envisaged a charge of between £200 and £500 and clearly preferred a one-off, up-front charge to an ongoing monthly charge:



“£500, in the scheme of things, isn't a big price. I think it could work to be honest, at that level.”

(Payroll professional)

Background to the survey

Research Works Ltd, on behalf of B&CE, the provider of The People's Pension, undertook qualitative research to understand how SMEs would be approaching automatic enrolment (AE) and the level of support they would require to comply with their duties. The purpose of qualitative research is to discover the full range of views on a topic or issue, looking to understand how and why these views are expressed by respondents. It is not the role of qualitative research to measure, which is the role of quantitative research.

The sampling was purposive. The goal of purposive sampling is to focus on particular characteristics of a given population in order to answer specific research questions. The sample comprised the groups known to be involved in supporting SMEs to become AE compliant i.e. SME employers, business advisers (accountants, payroll professionals and bookkeepers) and IFAs.

A total of 50 x individual, face-to-face depth interviews (1 hour duration) and 4 x focus group discussions (1.5 hours duration, 6 respondents) were conducted in April-May 2015, as described below:

- 18 x depth interviews and 2 x focus group discussions with SME employers
 - A mix of micro (less than 10 employees) and small (11-30 employees) businesses was achieved
 - All were post-June 2015 stagers i.e. yet to stage at the time the research was conducted
 - A mix of those intending to complete AE administration tasks themselves and those intending to ask their business adviser for support to complete AE administration tasks was achieved
- 4 x depth interviews with SME employers who had staged in June 2015 (all B&CE customers)
- 20 x depth interviews and 2 x focus group discussions with business advisers (accountants, bookkeepers, payroll professionals and IFAs working with SMEs)
 - A mix of independent advisers and those working for small firms
 - A mix of those prepared to support SMEs to complete AE administration tasks themselves and those prepared to complete these tasks on behalf of their SME clients was achieved
- 6 x depth interviews with corporate IFAs and payroll professionals from payroll bureaux (all B&CE customers)
- 2 x depth interviews with representatives from building federations.

For people, not profit

B&CE is a not-for-profit organisation – we operate for the benefit of our members and their dependants. We were founded in the construction industry back in 1942. Now we offer a workplace pension, employee accident cover, employee life cover and employee healthcare.

We currently manage assets of over £2.6 billion, with more than three million members and over 18,500 corporate accounts.

For over 30 years, B&CE has provided workplace pensions to employers large and small. We've operated ways to automatically enrol employees into pension saving for over ten years.

In November 2011 we announced The People's Pension, our flexible solution to help employers to comply with their automatic enrolment duties. It's designed for people rather than profit and is suitable for any organisation in any sector.

The People's Pension has won us a number of awards, including the Defaqto 5 Star Rating for auto-enrolment in 2015 and DC Provider of the Year at the UK Pensions Awards in 2014.

Information correct as at 31 August 2015.



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It is the administrator for the B&CE EasyBuild Stakeholder Pension which is a personal pension scheme.

The company is also a distributor of, and an administrator for, The People's Pension Scheme and the Employee Life Cover from B&CE which are occupational pension schemes to which different law and regulation applies. Further details can be found on our website www.bandce.co.uk/legal