

SCOTTISH WIDOWS

official pensions and investment provider



Workplace Pensions Reform

Automatic Enrolment –
Employer Information



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Introduction

Over the next few years employers will need to comply with the Pensions Act 2008. The Automatic Enrolment legislation, due to be introduced in 2012, will have wide-ranging effects across every field of business. You can prepare now by gaining a thorough understanding of the changes and the potential impact they will have upon you and your company. This guide summarises the main changes, what they mean to you and how you can best prepare for them.



Summary of reforms

While the full changes include reforming the State Pension to make it simpler and extending people's working lives, the key reforms affecting employers relate to the Government's ideas for making it easier for more people to save for retirement. The Government estimates that currently about seven million people aren't saving enough for their retirement. As a result, it is putting the responsibility on employers to help encourage more people to save:

- You'll be required to automatically enrol eligible employees into a 'qualifying pension scheme'. This could be your own company scheme if it meets certain criteria or a low cost alternative by another provider, such as the Peoples Pension or the National Employment Savings Trust (NEST).
- You'll eventually be required to contribute a minimum of 3% of each employee's 'qualifying' earnings which is intended to incentivise them to join. Their own contributions and tax relief will be added to this to meet a minimum 8% contribution rate from 2018.

The Government recognises that these reforms continue to place employers at the heart of pension provision and that they can be successful only with your support. It is therefore proposing key measures designed to minimise the burdens on you:

- Minimum employer and employee contributions will be phased in.
- Simple, straightforward, qualifying criteria for existing company schemes, meaning many existing schemes will meet them already, perhaps with minor changes.
- A 'light-touch' but effective compliance regime for new employer duties such as automatic enrolment. Read on for full details of these changes, and what they mean for you.



Automatic enrolment and compulsory contributions

The requirement

From sometime between 2012 and 2017 (depending on the size of business and type of scheme), you will have to automatically enrol all eligible employees in a qualifying pension scheme and make contributions to their plan.

Employees eligible for automatic enrolment will:

- be those who aren't already active members of a qualifying scheme; and
- be aged between 22 years and the State Pension age; and
- meet the minimum earnings threshold for eligibility, which is likely to be the income tax personal allowance (£7,475 in 2011/12)

The qualifying scheme may be your own company scheme, if it meets certain criteria, or a low cost alternative by another provider, such as the Peoples Pension or the National Employment Savings Trust (NEST). The important point here is that the Government has set a minimum contribution for these qualifying schemes. The minimum contributions that will apply from 2018 are shown in the table below.

Minimum contribution	Employee pays	Tax relief	You pay
8%	4%	1%	3%

While employees can opt out, for those choosing to contribute, you will have to contribute at least 3% of their qualifying earnings. Contributions are payable on qualifying earnings. The thresholds for these have still to be finalised, but qualifying earnings may be those between the current proposed minimum threshold of £5,564 and the current proposed upper limit of £39,853. From your staging date this will apply to all new eligible employees and those not currently in a qualifying scheme.

Employees between ages 16 and 21, or over state pension age but under 75, can ask to be enrolled, and you will have to pay in for them. Employees without qualifying earnings can also ask you to arrange a pension for them, but in that case you won't have to pay in.

It is possible for you to pay more and the employee to pay less, as long as the total contribution is at least the minimum. For example, if you pay the full 8% your employee does not need to make any contribution.

What this means for you

Research has shown that automatic enrolment is one of the most effective ways of triggering pension scheme membership and contribution*.

The Government is proposing to introduce automatic enrolment in stages between October 2012 and October 2017, starting with the largest employers. Minimum employer contributions will be phased in, rising from 1% initially to 2% in October 2017 and 3% a year later. The Government has announced that these dates will be reviewed. Any new dates will be no earlier than those shown below.

	Employee pays**	Employer pays
Before October 2017	1%	1%
October 2017-October 2018	3%	2%
From October 2018	5%	3%

*The Employers Pension Survey 2009.

** Less tax relief.

Qualifying company schemes

Requirements

If you want to use your own company scheme to meet the new requirements, it will have to meet certain qualifying criteria.

The Government has designed simple qualifying criteria for Company Schemes.

- Does it permit automatic enrolment?
- Are employees automatically enrolled within 3 months of joining the company?

An employer can either automatically enrol a new employee immediately on joining service or can choose a date up to three months after joining service in order to tie in with payroll administration procedures or to avoid enrolling very short term employees.

- Does the scheme have a default investment option?

A qualifying scheme must offer a default investment option which recognises the likely characteristics and needs of employees who are enrolled into it. There should be an appropriate balance between risk and return and charges should reflect this balance. A medium risk 'lifestyle strategy' investment, where funds are gradually moved into less risky funds as a member approaches retirement, is likely to meet these requirements.

- Does it meet one of the minimum contribution tests?

If your company scheme passes the required criteria, then it will qualify and you won't need to offer an alternative scheme.

Minimum Contribution Tests Money Purchase, Stakeholder and GPP schemes	
Standard Test	Alternative Contribution Tests
Minimum contribution of 8% of qualifying earnings+ with at least 3% paid by the company.	<ul style="list-style-type: none"> • contributions are at least 9% of pensionable pay* (4% minimum employer contribution), or • contributions are at least 8% of pensionable pay (3% minimum employer contribution) and, on average, pensionable pay is at least 85% of total pay, or • contributions are at least 7% of total earnings (3% minimum employer contribution)

+ qualifying earnings are likely to be between the current proposed minimum threshold of £5,564 and the current proposed upper limit of £39,853, and include bonuses, overtime, commission etc.

*pensionable pay must be at least all basic earnings. This can exclude any variable elements but must include geographical allowances

If your company scheme passes these relevant criteria, then it will qualify and you do not need to take any action for existing members.

What this means for you

The qualifying criteria are intended to allow you to easily compare and choose the form of pension provision that best suits your company. They will ensure that you don't lose the ability to offer good company scheme provision for those you feel need it.

If you want to find out if your current contributions will meet the minimum requirements, or what the financial impact will be on your business, speak to your Company Pension Scheme Adviser about our Contributions Calculator on our microsite at:

<http://www.scottishwidows.co.uk/pensionsreform/employers/tools>

New compliance requirements

The requirement

Whichever qualifying scheme is adopted, you will have additional regulatory requirements to be aware of.

These requirements are being introduced to ensure that employees' rights are safeguarded. This will stop non-complying employers achieving any competitive advantage, and should minimise the need for compliance action, such as a fine. They're designed to manage three key areas of risk.

- 1 Risk to auto-enrolment:** you'll be required to register with the Regulator how you will meet your enrolment duties for each of the PAYE schemes you run. Failure to register will be detected by comparing records with HMRC.
- 2 Risk to the opt-out process:** it is important that employers do not put themselves at risk of failing to comply with the new regulatory requirements by offering their employees incentives to opt-out of joining the pension scheme.
- 3 Risk to pension payments:** your payments will be monitored by the pension scheme trustees or administrator, who will be required to report any failures to the Pensions Regulator (essentially the same as the current situation with workplace pension schemes).

What this means for you

This proposed new regime will place two potential additional costs on your business (in addition to the costs associated with increased membership and contributions).

- 1** The first will be the administrative cost of registering and meeting your new enrolment duties. There are detailed rules covering what you have to tell the Regulator and your employees and also the processes for enrolling staff and dealing with opt-outs.
- 2** The second cost will be incurred only by anyone fined by the Regulator in the event of non-compliance.

There is a daily fine which is dependant on the size of the employer's workforce. The current level of fines can be found in the table below:

Number of persons	Prescribed daily rate
1-4	£50
5-49	£500
50-249	£2,500
240-499	£5,000
500+	£10,000

What to do next

Although the legislation won't start coming into force until October 2012, now is the time to start making preparations for the changes. Here are a couple of steps to help you start investigating the impact on your business and making plans.

Step 1: Check your staging date

Automatic enrolment is being phased in depending on an employer's size. The first staging date is 1 October 2012. The first thing you should do is identify when your staging date is. You can find out your staging date by using the 'How we can help' section of this booklet or on our website

www.scottishwidows.co.uk/pensionsreform

Step 2: Identify the potential financial impact on your business

There are a number of specific issues which could have a financial impact on your business, depending on how close your current pension scheme is to the new requirements:

- Contribution rate

The rate of contributions to your company scheme may have to be increased to meet the minimum contribution test that you have selected. Furthermore the definition of pensionable earnings may also have to be changed (see below).

- Qualifying earnings

Eligibility for automatic enrolment into a qualifying scheme is based on qualifying earnings or one of the alternative permissible bases. The level will be announced early in 2012, but is likely to be between the current proposed minimum threshold of £5,564 and the current proposed upper limit of £39,853. All earnings are covered including overtime, bonuses, commission, etc.

Seasonal workers or employees whose earnings vary from pay period to pay period have to be automatically enrolled when their earnings in a given pay period exceed the threshold.

- Pensionable Earnings

Most existing company schemes calculate contributions on either basic earnings or on total (P60) earnings. For a scheme to be a qualifying scheme for automatic enrolment purposes the contributions must meet one of the tests described in the table on page 8. Depending on the test chosen, the definition of pensionable earnings used by the scheme may have to be changed, potentially incurring additional costs and affecting members' benefits.

- Waiting periods

Most employer pension arrangements are only open to staff after they have been employed for a period, because a proportion may leave employment in the early months. Employers can choose to operate a waiting period of up to three months before an eligible employee needs to be automatically enrolled. However employees can opt in during this period.

- Additional members

Although employees can opt out of the scheme once they have been automatically enrolled it is still likely that automatic enrolment will substantially increase membership of many pension arrangements.

It is therefore highly likely that your business will incur significant additional costs through automatic enrolment alone. The increase will be higher for those who don't currently offer a company scheme or who don't currently contribute to it for their employees.

Step 3: Consider the options available to you

If you are faced with significant extra costs as a result of the introduction of automatic enrolment there are several options you could consider to minimise the impact on your business:

- Consider gradually increasing your existing qualifying scheme membership if possible. This will help avoid a sudden increase in costs due to auto-enrolment and compulsory contributions. We can help you do this with a range of worksite promotional material.
- Consider gradually phasing in contributions so that the full financial impact on your business is managed.
- Offering salary exchange (also known as salary sacrifice) can reduce costs by deducting the employee's contribution from their salary before tax and National Insurance, saving on National Insurance contributions for both the employee and employer. However operating salary exchange in conjunction with automatic enrolment can be complicated and you should seek advice from your financial adviser.
- Consider the profile and needs of your employees:

Will a low level of choice and basic service be acceptable to you and your employees?

How many staff would have contributions in excess of the limit of £4,400 (for tax year 2012/13) for the NEST scheme?

In many cases, your needs will be fully met through a Scottish Widows product. In some situations however a single provider will not always be the most effective route and segmentation of the workforce may be the optimum solution.

Segmentation can deliver greater benefits where there is a large contribution differential between the higher and lower paid employees. You and your adviser can decide how best to segment a workforce and which provider(s) to use to meet their needs.

If you choose one of the pensions propositions (such as NEST or The People's Pension (B&CE)) designed to meet the needs of lower paid and seasonal workers at a

reasonable cost, we'll work alongside the other provider to ensure a streamlined and joined up administrative experience. Our Automatic Enrolment Solution will enable you to manage your entire workforce through a single interface directing employee categories and relevant data automatically to Scottish Widows and also to an alternative provider where one has been selected by you for part of your workforce.

A segmented approach with Scottish Widows means that for mid to high earners we can continue to offer:

- A broader and more sophisticated proposition which will often be used in conjunction with the services of a financial adviser.
- Bespoke employee education and engagement as part of the wider employee benefit package specific to that employer.
- Broader education and engagement across the broader spectrum of retirement planning products, assets and considerations more generally (i.e. **my moneyworks**).

Benefits of a segmented approach:

- Key employees get access to a bespoke proposition designed for them at a low cost (with no need to cross subsidise their lower paid and more transient colleagues).
- Lower paid and more transient staff are not paying a higher charge in respect of product features and services which they may not use or benefit from.

Step 4: Decide what scheme(s) you want to operate

By considering your options and your current situation, you and your adviser will be able to make a decision as to how you will provide all your eligible employees with pension provision from your staging date.

Step 5: Communicate to your staff

Employers will need to communicate the impact of automatic enrolment to their staff. Trying to make sure any communications are clear and effective will be key. Effective communication is about tailoring the messages and knowing the best media to use to reach staff. Employers will need to consider a number of factors when determining their communication strategy.

How we can help

We'll keep you informed via our website – www.scottishwidows.co.uk As well as updated information on the legislation we also provide online guidance and tools to help ensure your business is fully prepared. We have an Automatic Enrolment website where you can find everything you need to help you prepare your business. Please visit us at www.scottishwidows.co.uk/pensionsreform

Checking your staging date

Employers will be brought into the regime gradually to facilitate a smooth take-on of employers by the Pensions Regulator.

The table below details the staging dates, which are determined primarily by PAYE scheme size, although there are some exceptions to this. Where an employer has more than one PAYE scheme, the earliest staging date will apply.

Employer size	Auto-enrolment staging date
120,000	1 October 2012
50,000 – 119,999	1 November 2012
30,000 – 49,999	1 January 2013
20,000 – 29,999	1 February 2013
10,000 – 19,999	1 March 2013
6,000 – 9,999	1 April 2013
4,100 – 5,999	1 May 2013
4,000 – 4,099	1 June 2013
3,000 – 3,999	1 July 2013
2,000 – 2,999	1 August 2013
1,250 – 1,999	1 September 2013
800 – 1,249	1 October 2013
500 – 799	1 November 2013
350 – 499	1 January 2014
250 – 349	1 February 2014
50 – 249	1 April 2014 to 1 April 2015
Test tranche <30 employees	1 June 2015 to 30 June 2015
30 – 49 employees	1 August 2015 to 1 October 2015
Less than 30 employees	1 January 2016 to 1 April 2017
New employers	1 May 2017 to 1 February 2018
The rules for staging within each size grouping have still to be confirmed	

Identifying the potential financial impact of the new legislation on your business

To help you assess the impact of automatic enrolment we have produced a Contributions Calculator which will help you look at the financial impact of these requirements on your scheme, and to identify any changes which may be required to help you to meet them. You can access the Contributions Calculator at:

<http://www.scottishwidows.co.uk/pensionsreform/employers/tools>

You should also consider the costs that might arise due to any additional administration that may be required to comply with the new legislation.

Salary Exchange

One method of reducing the costs of automatic enrolment is to set your scheme up on a salary exchange basis.

By making payments through salary exchange (sometimes referred to as salary sacrifice) rather than directly, your employees can reduce the amount of National Insurance Contributions (NICs) that they pay. Plus, it will also save you money as your NICs will reduce.

Salary exchange is an arrangement where an employee gives up part of their future earnings or bonus in exchange for a non-cash benefit. As the salary is being 'exchanged' rather than paid, the employee does not pay NICs on the exchanged amount. In addition, you won't pay NICs on the amount of salary exchanged either. The exchanged amount can then be paid to the employee's pension plan as an employer contribution.

Any savings you make using salary exchange can then be used to offset any increased contribution and administrative costs of that arise from automatic enrolment.

Speak to your Company Pension Scheme Adviser for more information.

Support for the automatic enrolment process

The rules governing automatic enrolment are quite complex and employers can face fines if they don't comply. We are committed to supporting employers by helping them to identify eligible employees, those who require to be offered membership and those who are due for re-enrolment. We will also assist with checking whether the contribution rates meet the qualifying conditions and in calculating the contributions due in respect of each employee.

Online software development

We're designing bespoke online automatic enrolment software that will help employers in several key areas –

- Complying with legislation

The automatic enrolment legislation is a legal requirement for all employers. We will help you comply fully and comprehensively with the complex legislation by designing an on-line facility that can:

- apply automatic enrolment rules, with the ability to set employer specific parameters
- act as a database to record opt in/opt out status, eligibility status, contribution levels and to trigger three year re-enrolment
- create and pre-populate mandatory communications
- provide reporting and MI capability to provide necessary audit trail to demonstrate compliance to The Pensions Regulator.

- Administration support

We'll reduce the administration costs and significantly improve efficiencies for employers through our on-line facility which will:

- Interface with employer payroll systems
- Help you meet the phased contribution requirements by calculating the employer and employee contributions due
- Interface directly with our administration systems

- Working with other providers

You may wish to adopt a segmented approach to automatic enrolment. If you choose an alternative pension scheme provider – such as NEST – for certain sections of the workforce, we will work alongside your chosen additional provider to ensure a streamlined administrative experience.

We will also work with advisers who are providing their own automatic enrolment software and ensure our administration can work smoothly alongside this.

We will assist with employee communication and in preparing the appropriate certificates and reports for the Pensions Regulator.



Straight talking, innovative employee communications

Communicating the changes to your employees will be crucial. We have a dedicated communications team who can help you successfully promote your scheme to your employees. As well as the more traditional methods of delivering communications we also offer a range of off-the-shelf multimedia items including:

- Employee information packs with salary exchange versions and promotional material available
- Posters, e-mailers and desk drops
- User friendly microsite which navigates employees to the key information on their company pension and provides access to our online tools and member services.

For larger schemes we can even work with you to develop a bespoke communications plan tailored to your specific requirements.

We offer a range of branding options and have an extremely flexible approach.

mymoneyworks

In Scottish Widows most recent Workplace Savings Report, the findings indicated that a company pension came in third behind the State Pension and ISAs in terms of providing an income in retirement.

This means employees are thinking about a range of options when planning for retirement and balancing long term retirement planning with more immediate financial challenges. For these reasons, Scottish Widows has extended its pensions offering for employers and employees to include a web based financial service called **mymoneyworks**, which now includes a range of savings offers. **mymoneyworks** allows employees to have ISAs and pensions in one place so it is easier to keep abreast of their financial planning. The range of products available through **mymoneyworks** includes:

- Retirement Planning
- Corporate ISAs
- Savings Accounts

As well as a range of products mymoneyworks gives employees access to guidance and tools to help them plan for a better financial future. Meeting the needs of employees **mymoneyworks** is needs based, which simply means we always start with the needs of the individual employee. **mymoneyworks** helps them construct a meaningful picture of their finances, taking into account existing savings or benefits. It helps them assess their priorities and provides them with the information they might need to decide what financial products could be right for them. For those with more complex needs or perhaps lacking the confidence to make important decisions, further help is at hand.

Genuine guidance

As **mymoneyworks** is an integral part of our Group Personal Pension proposition, to operate successfully it does not have to rely on the sale of other types of products. This allows us to offer impartial guidance on other aspects of your employees' finances, and thereby provide a financial service that operates with real integrity.

At work and at home

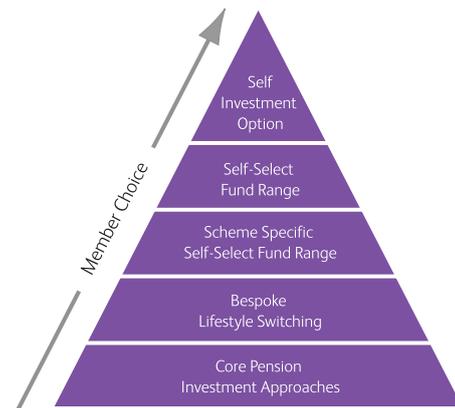
We recognise that convenience is important to employees and for that reason **mymoneyworks** can be accessed either at work or through a personal computer at home. None of the employee's details can be seen without their personal log-in details.

We take pride in adding the personal touch

Our company pension proposition is designed to meet the needs of your business and your employees and focuses on service, technology, investment expertise and marketing consultancy.

- On-call team to handle all types of technical, legal or communication issues.
- Dedicated, ongoing member communications including a unique, jargon-free enrolment pack designed to improve employee take-up.
- Online member support.
- Unique investment decision tool that helps employees make their own investment decisions.
- Marketing consultancy service to help you meet your scheme's objectives.
- Salary Exchange tools and calculators to help you and your employees offset some costs.

Investment expertise with wide appeal to all customers



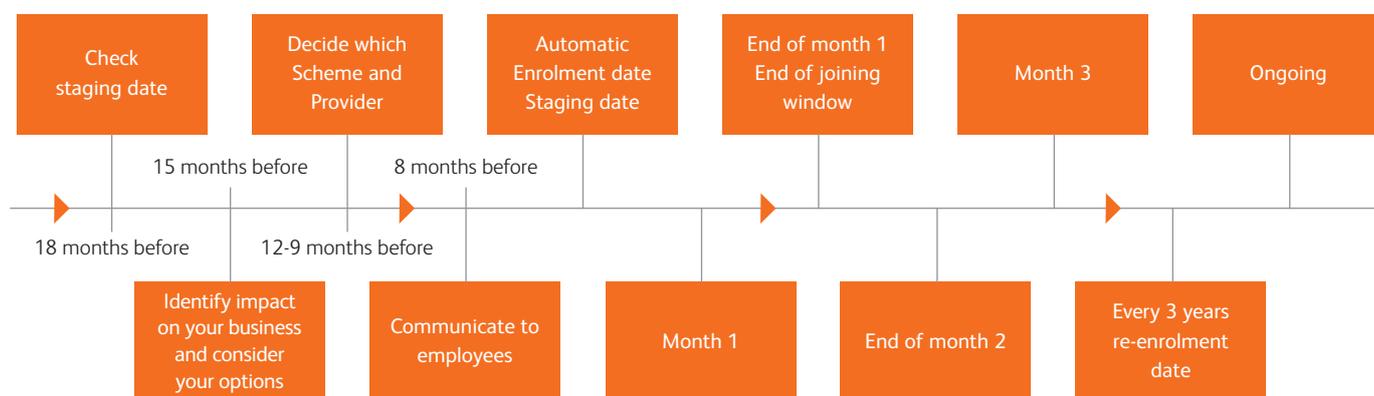
We offer a segmented approach to investment for scheme members. This begins with our core Pension Investment Approaches, a wide range of self-select funds (internally and externally managed) and access to our Self Investment Option.

We offer flexibility around the core default investment strategies, with the option to bespoke these.

Our fund monitoring and governance team regularly monitor funds and manager processes, philosophy and performance. We also carry out annual governance of our three core-risk based default options. This review considers the underlying assets, funds and lifestyle approach, to ensure it is still appropriate.

Timeline for Automatic Enrolment

The following diagram has been designed to illustrate the steps you need to take to ensure you meet the requirements of Automatic Enrolment.



If you'd like any further information about our pension schemes, or would like further information or help on automatic enrolment, please contact your Company Pension Scheme Adviser.

SCOTTISH WIDOWS

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