



Auto-enrolment: the UK experience so far....

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Prepared by Aon

Agenda

- Background to AE in the UK
- Structure of the AE requirements
- Experiences so far
- What's next

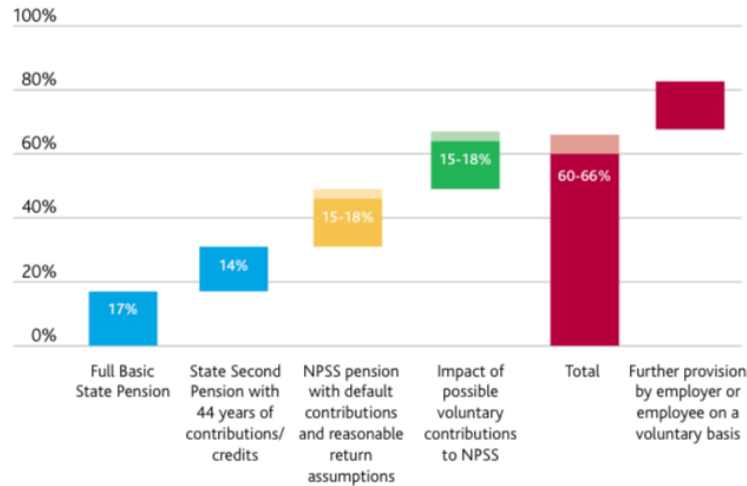


The Birth of AE

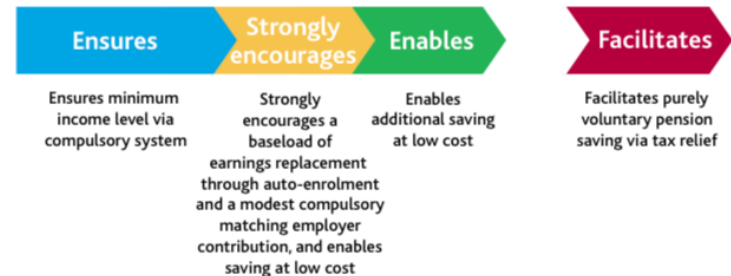
*“The creation of a **low cost** pension savings scheme into which individuals will be **automatically enrolled**, but with the **right to opt-out**, with a **modest level of compulsory matching employer contributions**.”*

Lord Adair Turner, Pensions Commission
New Pension Settlement for the Twenty-First Century - The Second Report of the Pensions Commission
14 February 2006

Figure Ex.7 Target pension income as a percentage of earnings for the median earner: at the point of retirement

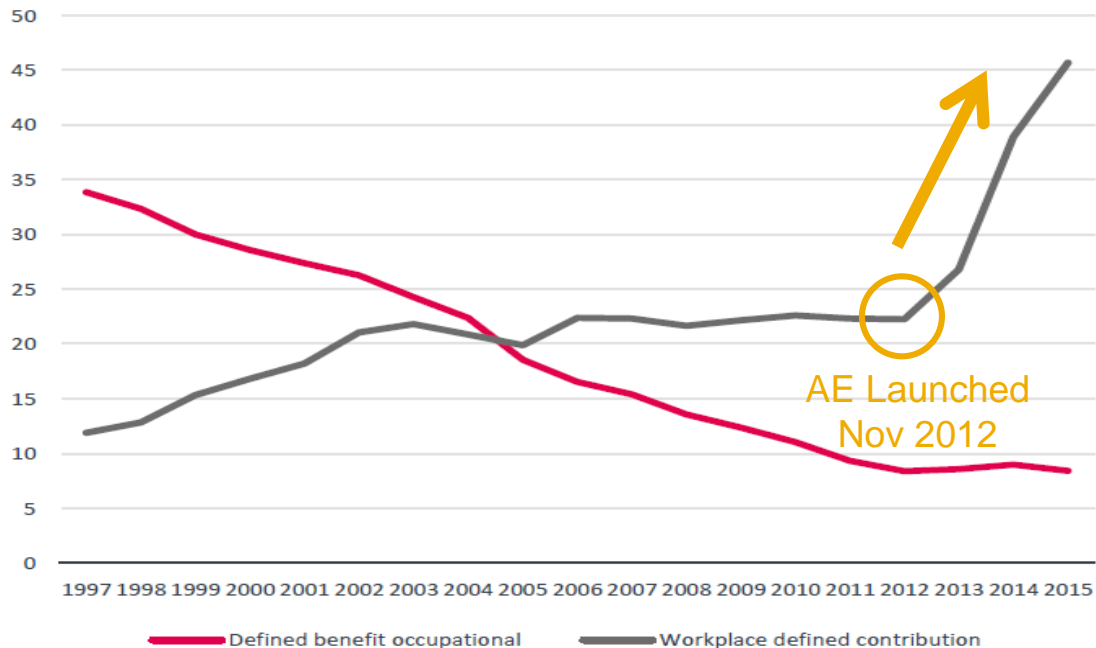


The role of the state



The UK pensions market

Membership of private sector corporate pension schemes (1997-2015)
Percentage of private sector workforce with DB vs workplace DC pension (%)



“Today we celebrate nine million workers being enrolled into a pension thanks to AE”

Guy Opperman
Parliamentary Under-Secretary of State
for Pensions and Financial Inclusion
14 December 2017



Structure of the AE requirements

Employer Duties under auto enrolment

- Applies to every employer in the UK regardless of size.
- Workers will need to be
 - A)** automatically enrolled into a DB or DC scheme that meets minimum requirements, or
 - B)** be offered scheme membership (depending on worker's status)
- Eligible new hires will need to be auto enrolled within 3 months of commencing employment
- Workers can opt-out at any time
 - Refund paid if opt-out within 1 month of being automatically enrolled
- Re-enrolment: on each 3 year anniversary of employer AE date

Important:

- There should be no barriers to joining
- Workers can't be "encouraged" to opt-out

Staging dates

Depends on number of employees in largest PAYE scheme.

Number of employees	Staging date
120,000 or more	1 st October 2012
50,000 – 119,999	1 st November 2012
30,000 – 49,999	1 st January 2013
20,000 – 29,999	1 st February 2013
10,000 – 19,999	1 st March 2013
6,000 – 9,999	1 st April 2013
4,100 – 5,999	1 st May 2013
4,000 – 4,099	1 st June 2013

Number of employees	Staging date
3,000 – 3,999	1 st July 2013
2,000 – 2,999	1 st August 2013
1,250 – 1,999	1 st September 2013
800 – 1,249	1 st October 2013
500 – 799	1 st November 2013
350 – 499	1 st January 2014
250-349	1 st February 2014
<250	Between 1 March 2014 and 1 April 2017 depending on actual number of employees and PAYE reference number.

Who needs to be enrolled?

Age / Earnings	16-21	22-SPA	SPA - 74
Under £5,876 (LEL*)	Entitled worker (have right to join a scheme)		
Between £5,876 and £10,000	Non-eligible jobholder (can choose to opt-in to a qualifying scheme)		
Over £10,000	Non-eligible jobholder	Eligible jobholder (must be auto-enrolled in a qualifying scheme)	Non-eligible jobholder

* The triggers shown are for 2017/18; future triggers are announced annually

Who is a worker?

- Any individual who.....
 - Works under a contract of employment or
 - Has a contract to perform work or services personally – not as part of their own business
 - Ordinarily working in the UK
- Includes:
 - Contractors
 - Agency workers
 - Zero hours contracts
 - High earners
 - TUPE transfers
- Excludes:
 - Self employed
 - The gig economy

Auto-enrolment also applies to expats -
inbound and outbound

- fixed assignment
- Rig workers and rotators
- Commuters
- Short-term business visitors
- Employees with UK duties

DC schemes – auto enrolment minimum

- Earnings between a lower and upper threshold
 - £5,876 - £45,000 for 2017/18
- Earnings include:
 - salary, wages, commission, bonuses, overtime
 - statutory sick, maternity, paternity, adoption pay
- If have different earnings definitions, can “certify” existing plans
 - Eg 9% of base pay

Contributions as % of Qualifying Earnings	Employer Contributions	Employee Contributions	Total Contributions
From Staging Date	1%	1%	2%
From April 2018	2%	3%	5%
From April 2019	3%	5%	8%

The default investment option

Whole process based on no decision from employee

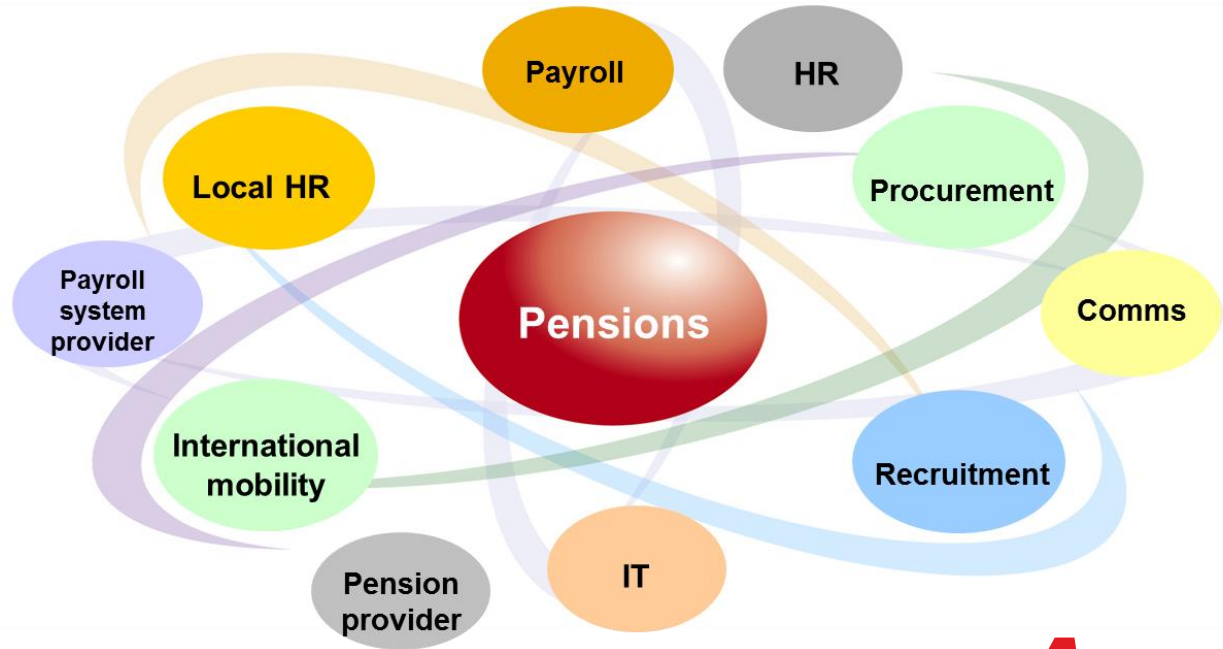
The DWP has issued guidance to set out standards for default options in automatic enrolment covering:

- deciding on the suitability of the default option for the membership;
- designing the default option;
- monitoring the performance of funds within the default option;
- communicating information about the default option to members; and
- reviewing and/or changing the default option.

Default investment option is subject to **75bps charge cap**

Making it all happen – its not just a pensions issue

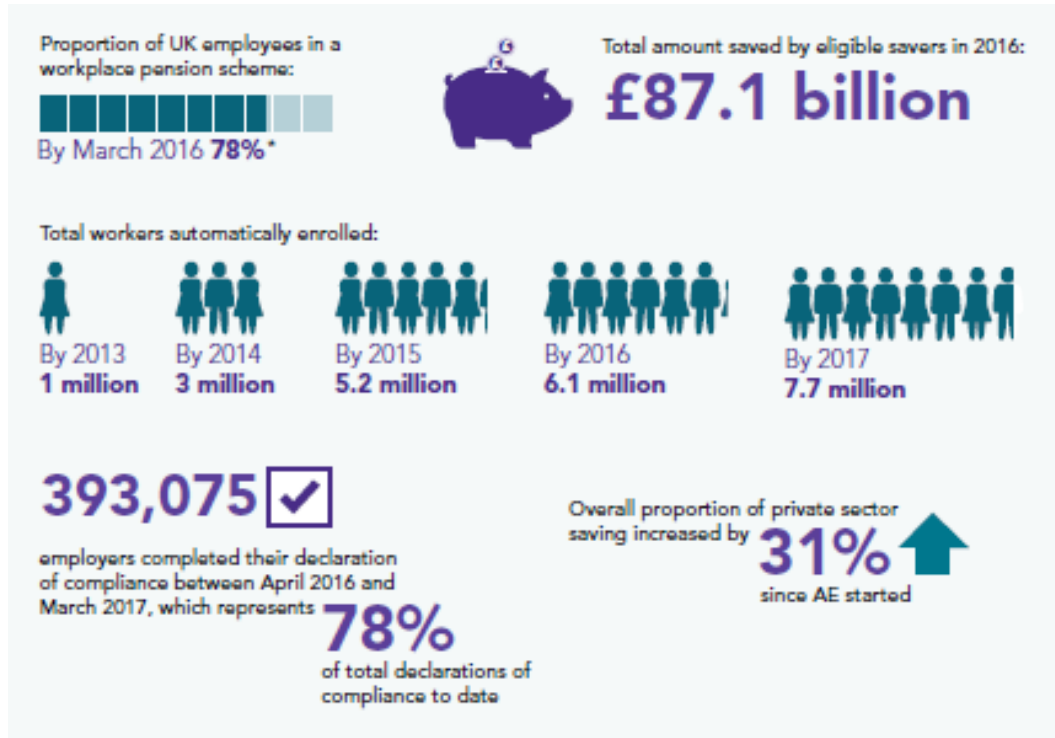
- Auto-enrolment – at staging date, change of status, new hire
- Postponement (aka waiting period)
- Opt out
- Opt in
- Workforce assessment
- Re-enrolment
- Compliance and record keeping
- Communications





Experiences so far

Experience so far (March 2017)



Source: The Pensions Regulator - Automatic enrolment Commentary and analysis: April 2016 – March 2017

There are over **700,000** more employers whose duties are still to begin over the coming months.

Opt out rates are low, so far.....

Table 1: Opt-out rates vary by characteristics

Age	Proportion opting out
< 30	7%
30 – 49	9%
≥ 50	23%

Working pattern	Proportion opting out
Full-time	10%
Part-time	18%

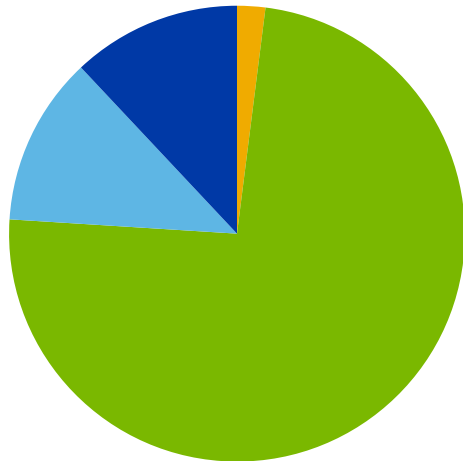
Gender	Proportion opting out
All	12%
Women	14%

- ✓ Apathy paid a key role
- ✓ The ability to opt-out was an important and powerful message
- ✓ Positive messaging was most successful

Source: Pensions Policy Institute - The impact of automatic enrolment in the UK as at 2016

What did companies do re contribution design?

Benefit structure likely to be offered to current non-pension scheme members for auto-enrolment purposes (larger employers)



■ Current DB ■ Current DC ■ Less generous DC ■ Other

Scheme design:

- Most larger employers used existing vehicle and contribution design for new and existing members
- Some employers (eg with high turnover) adopted a 2 tier approach

Overall impact:

- No evidence of “levelling down”
- Higher coverage with lower average contribution rate

Source: Aon Hewitt auto-enrolment survey January 2012

Engaging and supporting employers has been crucial

- Eligibility criteria made implementation complex
 - Projects took 6-12 months to implement
 - And cost multiple £100ks for larger / more complex employers
- And ongoing compliance is not easy
 - tPR investigated 125,000 cases of non-compliance to end-2017
 - 123,000 were issued formal notices
 - Employers are building up unknown liability





What's next?

2017 auto-enrolment review – 3 key risks....

Savings levels

Ambition” from mid-2020s is to:

- Reduce the lower age limit from 22 to 18
- For contributions to be calculated from the first pound earned

Self-employed

Further research needed as there is no single or straightforward mechanism, and not all self-employed people need help to save

Engagement

Want to 'galvanise efforts to build a sense of personal ownership of savings'.

- Through more effective, consistent and personalised approaches
- Examples include simplified and consistent annual benefit statements and the Pension Dashboard

Looking ahead

Design:

- Contribution step ups in April 2018 and 2019
 - Will workers stay in?
- Moving on from 8%....
- Compulsion?

Coverage:

- Self employed?
- What about the gig economy?

Impact of Financial Wellbeing – eg other financial priorities over pensions?

FT ADVISER

Third of millennials to opt-out when auto-enrolment hits 8%

[Royal London research, Aug 2017]

FT ADVISER

80% Employees happy they are forced into pensions

[DWP research, Aug 2017]

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