



Information  
for  
employers

A quick guide to

# **selecting a good quality pension scheme for automatic enrolment**

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The Pensions  
Regulator

Changes to the law on pensions mean that every employer in the UK has to automatically enrol certain workers into a pension scheme. You will need to **start making arrangements** for automatic enrolment soon, if you haven't already.

This guide is for employers **selecting a pension scheme** to use for automatic enrolment.

## What you need to do

You must select a pension scheme which meets certain legal requirements. These include, for example, that the scheme does not require the worker's consent to join, it allows workers to join from their first day of employment, it is tax registered in the UK and it allows for the minimum legal contributions from employers and workers.

Use our qualifying scheme tool to check whether a scheme meets the legal requirements. This is available at [www.tpr.gov.uk/qualifying-schemes](http://www.tpr.gov.uk/qualifying-schemes). You may also need to speak to your pension scheme provider or a pension adviser.

You should also choose a good quality pension scheme that is well run, offers value for money and protects your workers' retirement savings. Selecting a good quality pension scheme is not a difficult process and, from your perspective, it doesn't have to cost more than a scheme which is of a lesser quality.

This guide provides information on the areas that you should focus on when assessing scheme quality. It also contains a list of questions you may want to ask if you discuss your choice of scheme with an independent financial adviser, employee benefit consultant or scheme provider.

## Types of pension scheme

Where an employer already has a good quality scheme which offers value for money to members, they may decide to use it as their automatic enrolment scheme. However, where a scheme is not in place for automatic enrolment, most employers are likely to choose a defined contribution (DC) scheme (also known as a 'money purchase' scheme), such as a master trust or group personal pension for automatic enrolment. In a DC scheme you and your workers make payments into the scheme over time to build up a retirement fund. The amount that your worker gets at retirement will depend on:

- how much has been paid into the scheme
- how the chosen investments perform
- the age at which they retire
- the cost of turning those investments into a retirement income.

Master trusts and group personal pensions are usually designed to be used by many different employers and tend to be run by large specialist pension providers. Because of their size and the way they operate, they generally cost less and require less involvement from employers compared to other schemes.

The National Employment Savings Trust (NEST) is a master trust that has been set up by the Government to ensure that employers can access a pension scheme to help them comply with automatic enrolment. NEST has a public service obligation, which means it must accept all employers who wish to select it as their automatic enrolment scheme provider. You can contact NEST by visiting [www.nestpensions.org.uk](http://www.nestpensions.org.uk).

You may be offered the option of setting up a new trust-based scheme if you are using the services of a financial adviser. This would involve your organisation providing a board of trustees who run the scheme. Our evidence suggests that most employers will find that it is not cost-effective to set up this type of scheme unless it has at least 1,000 people saving in it.

## How to assess scheme quality

When you assess the quality of different DC pension schemes, you should look at a number of key areas.

We understand that it's unlikely your workers will have a high level of financial knowledge and that you may have limited time to run your scheme. So we have asked all pension scheme providers to make sure their schemes are designed in a way which is tailored to the needs of your workers. You do not need to know or understand what a good quality scheme looks like in detail. Instead, when you assess the quality of different DC pension schemes, you should look at a number of key areas either directly with the provider or with an adviser.

## Scheme simplicity

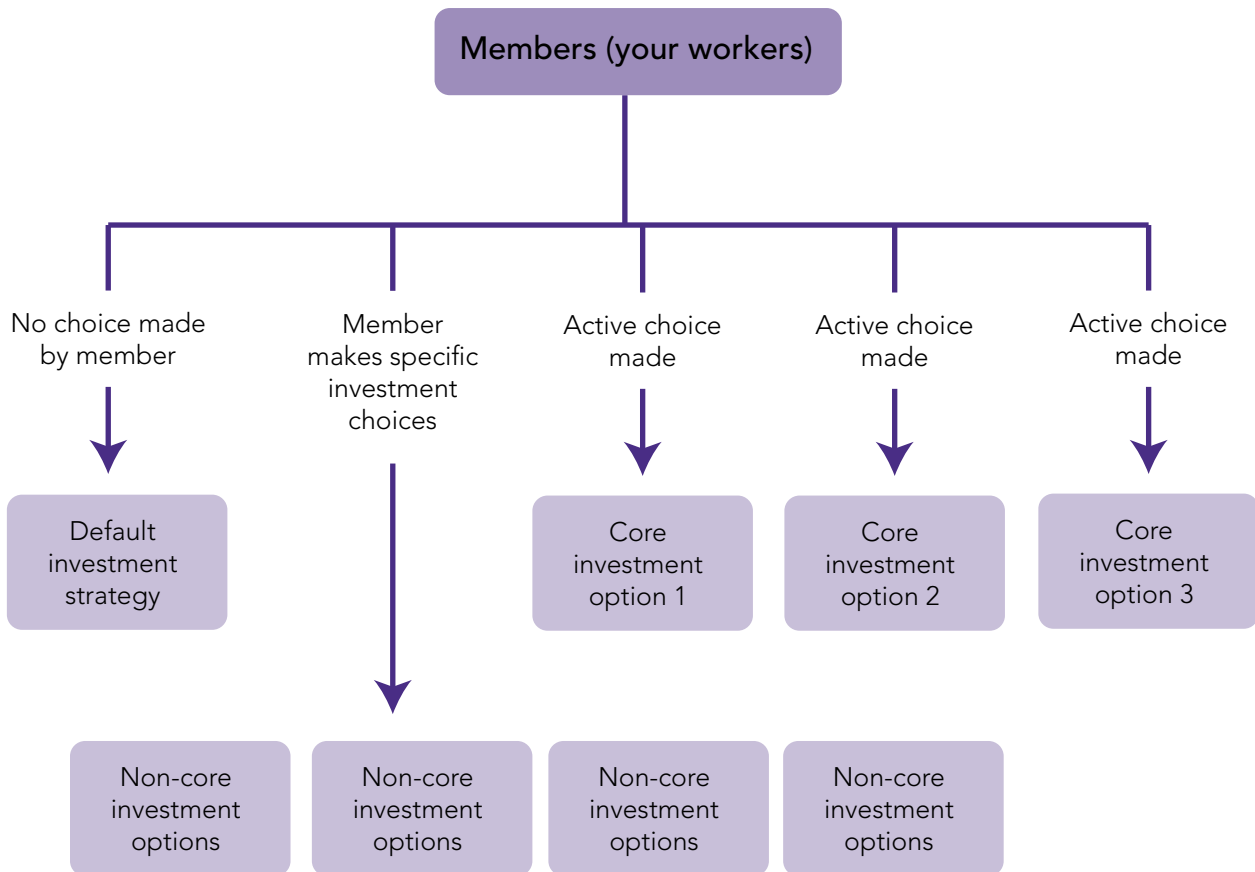
Workers' interest in, and understanding of, their pension savings is often very limited. For instance, they may be automatically enrolled into the scheme as a member and might not actively decide anything until they reach retirement.

It's important that the pension scheme you choose reflects the fact that members may not be engaged in choices about their pension savings. Members should be given the opportunity to understand the setup and structure of the scheme, but they should be protected even if they don't make active decisions about their pension savings.

## Investment options

Any scheme that you use for automatic enrolment must have a default investment strategy. This contains the investments that will be automatically selected if a member doesn't make an active choice about what to invest in. It is crucial that the default investment strategy is appropriate because it's likely that a large proportion of your members will end up using it.

A few members may want to choose their own investment options instead of the default strategy (see the following diagram). You should check that each investment option suits a certain type of member. For example, some members may want higher risk investments while others may want investments which are compliant with Sharia law. However, too much choice can be confusing, so your pension provider should be able to justify why the core investment options they provide – in addition to the default investment strategy – are appropriate for members now or in the future.



## Managing investments

If a scheme is simple and easy-to-understand, you should be clear who is responsible for monitoring the performance of the default investment strategy and other investment options. Your members must understand where their money is being invested and what risks that carries.

## Value for money

The costs and charges taken from members' savings should be competitive when you consider them against the benefits and services that those members receive. These costs and charges can have a significant impact on members' eventual retirement income, and they should be a key consideration for you when assessing value for money.

Some services that pension providers offer may make the scheme more expensive, but can add value to the scheme for your workers. These include administration services, technology platforms, higher quality communications or more support for members as they approach retirement.

It's very important that you understand what your workers get for their money, how much it costs and whether they need any extra services provided.

## Your pension provider

The skills, knowledge and processes of the people running your pension scheme are critical. If they are making decisions about investments for the scheme they will be under legal duties to ensure they have the knowledge and competence to do their jobs. Group personal pension providers are regulated by the Financial Conduct Authority and need to be approved to offer pensions and other financial products. Trustees of master trusts are regulated by The Pensions Regulator and need to meet minimum standards of knowledge and understanding. Investment managers who work on behalf of group personal pension providers and master trusts are regulated by the Financial Conduct Authority.

Many pension schemes are offered by providers that are run for profit. You should ask potential providers how they ensure that the needs of your workers are taken into consideration when they make commercial decisions.

Providers must be able to handle the tasks associated with running a pension scheme and, in the event of any problems, your workers should understand how to make a complaint.

You should check whether the investment options offered to members qualify for protection and compensation arrangements, for example under the Financial Services Compensation Scheme. Any group personal pension or master trust provider should be able to explain the compensation available to members in their particular scheme. They also need to be able to advise what situations the compensation will cover if things go wrong. You should also check that the provider is required to hold enough money in reserve to ensure that they are able to survive as a business even if they encounter severe problems.

The provider must ensure that they keep the pension scheme's records accurate and up-to-date. This is vital to ensure that members can be contacted and that they are receiving the right information to monitor their savings. Your provider will rely on the information that you give to them about your workers to ensure the scheme meets the needs of your workers.

When running your pension scheme, the provider will sometimes use a third party. This could be an external investment manager, administrator or consultant. The pension provider, or the trustees in a master trust, retain ultimate accountability for the work that third parties carry out on their behalf.

## Communications

The scheme provider should regularly send good quality communications to scheme members which clearly explain:

- how much money they have saved
- how their investments are being invested and how they have performed
- what their projected savings will be at retirement
- how much of their contributions will be taken in charges
- whether the desired retirement income can be achieved at the current rate of contributions.

Without this information, your workers will find it difficult to understand whether or not they are saving enough to give them the income they would like when they retire. Annual statements and other communications should help members understand how they are progressing towards their desired pension income.

When a member retires, they will need to turn their retirement savings into an income for their retirement. This can be achieved in a number of different ways, so the communications they receive from the pension provider at this time will be crucial.

You should ask for examples of typical scheme communications – including those sent as members approach retirement – from the pension provider when making your assessment.

## Useful websites

To access our qualifying scheme tool, visit [www.tpr.gov.uk/qualifying-schemes](http://www.tpr.gov.uk/qualifying-schemes).

For more information about NEST, visit [www.nestpensions.org.uk](http://www.nestpensions.org.uk).

For more information about IFAs, visit [www.unbiased.co.uk](http://www.unbiased.co.uk).

The Association of British Insurers has a list of ABI members providing qualifying automatic enrolment schemes on its website at [www.abi.org.uk/pensionproviders](http://www.abi.org.uk/pensionproviders).

For information on pension providers, including master trusts, please visit [www.napf.co.uk/providers](http://www.napf.co.uk/providers).

## Appendix: Questions you can ask a provider

Here are some questions that you can put to pension providers. Getting the answers to these questions, together with appropriate evidence, will put you in a better position to choose a good quality scheme for your workers.

### Scheme simplicity

- Is the setup and structure of your scheme easy to understand?
- Will the people that provide and run your scheme ensure that workers' interests are protected even if they do not regularly make active decisions about their pension savings?

### Investment options

- What measures will you use to ensure that the default investment strategy is appropriate now and in the future?
- How many investment options are available to members? Are all of these options designed with a specific type of worker in mind?
- How are the investment options available to your members appropriate to their needs?

### Managing investments

- Who is responsible for monitoring the performance of the default investment strategy? And what will happen if any issues are discovered?
- Who is responsible for monitoring the performance of the fund managers?
- How will you communicate investment options and information to members and what will you do to ensure that they are able to understand them?

### Value for money

- What costs and charges will you take for running the scheme?
- How will you review costs and charges to ensure they are still value for money?
- Will you present information about costs and charges in a way that allows you to compare them with other pension schemes?
- How will members know about the costs and charges in the scheme, and how will you communicate this information clearly?

### The pension provider

- Are the people making decisions about investments qualified to do so?
- How will you ensure that the interests of scheme members are considered when making commercial decisions?
- Are decisions independently reviewed to ensure that you make them in members' interests?
- What is your conflicts of interest policy?
- Can your administration systems deliver an efficient service to my organisation and workers?
- What compensation is available if anything goes wrong?
- How often do you review records for accuracy?
- Who pays for any activities that replenish or update member details?
- What is your complaints process and how do you communicate this to members?
- Can you demonstrate the financial stability of your organisation?



- Will your workers be protected if your organisation enters insolvency?
- What compensation is available if members suffer losses due to problems with the pension provider?
- Are your workers and you protected from the effects of errors by your service providers?
- Who is in charge of ensuring that outsourced work is carried out properly?

## Communications

- What clear and simple plans do you have to ensure that workers are able to take their savings when they retire – even if they retire earlier or later than expected?
- How are members' options clearly communicated as they approach retirement?
- Do you provide any advice to members and is there any cost for this to the member?

## How to contact us

Napier House  
Trafalgar Place  
Brighton  
BN1 4DW

T 0845 600 0707

F 0870 241 1144

E [customersupport@thepensionsregulator.gov.uk](mailto:customersupport@thepensionsregulator.gov.uk)

[www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

[www.trusteetoolkit.com](http://www.trusteetoolkit.com)

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