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Information
for financial
advisers

A quick guide to

selecting a good quality pension scheme for automatic enrolment

July 2013

The Pensions
Regulator

Automatic enrolment will mean that all UK employers have to select a pension scheme for certain workers.

As someone who provides advice to employers on their responsibilities, you will be in a position to help them make choices that meet both their needs and the needs of their workers.

This guide is for financial advisers who have clients that are legally required to set up a pension scheme and contribute to it in the near future. It provides some considerations on how you can help your clients to choose a suitable pension scheme.

Your role

As more and more employers are affected by automatic enrolment, you will be asked to help both existing and new clients select a scheme. The decisions these employers make now will have a significant impact on the retirement savings of their workers in decades to come.

Selecting a good quality scheme, which is tailored to the needs of both your client and their workers, does not have to be difficult or time consuming. Good quality schemes are easier to manage, less likely to encounter administration issues, and a more secure home for pension savings.

We are writing to thousands of employers every month to notify them of their upcoming responsibilities. And while some of your clients may believe that automatic enrolment will not affect them for some time, the planning and systems adjustments involved can take up to 18 months. In addition, it is already against the law for any UK employer to engage in prohibited recruitment conduct relating to pensions – for example, offering a job on condition that the worker will not join the employer's pension scheme.

In order to help employers and their advisers select a good quality scheme, we have set out some key areas to consider when assessing the schemes on offer. These are in the appendix to this guide and they have also been used as the basis for an employer's guide to selecting a scheme (see More information on p4 of this leaflet).

As well as advising on scheme selection, you may be asked to help the employer prepare more generally for automatic enrolment, for example by establishing their staging date, assessing their workforce or communicating with their workers. And you may later be asked to support the ongoing administration and management of the scheme that your client chooses.

We don't expect employers to understand the details of what makes a good scheme, but they may need assistance to evaluate and compare the schemes on offer. Employers will be able to purchase pension products direct from providers. So it is important that you can demonstrate how your fees represent value for money to your clients.

Pension providers are responsible for ensuring that their products meet the needs of the target market, ie the workers of any employer selecting the scheme for automatic enrolment. We support the need to ensure that pension arrangements and products continue to be fit for purpose, so changes should be carried out in the interest of all scheme members and take account of cost implications. Equally, ongoing accountability for the governance of the scheme will sit with the provider, so while there may appear to be short- or medium-term benefits to suggesting changes to the scheme, providers will likely consider these in light of the responsibilities they will have for potentially decades to come.

Types of pension scheme available

Many employers will choose a group personal pension or a master trust for automatic enrolment. Usually run by large specialist pension providers, these schemes are generally designed to be used by large numbers of different employers. Because of their size and the way they are run, they should cost less and require less input from employers.

We are encouraging employers with fewer than 1,000 workers who will only be paying the minimum legal contribution rate required for automatic enrolment to question any recommendation that they set up a new trust-based pension scheme for their workers. The majority of employers will not benefit from setting up a trust-based scheme as they are generally unable to devote a high level of money and time to the running of the scheme.

Value for money

Value for money is one of the key issues that employers will need to consider when they select a pension scheme.

Provider services, in particular web-based employer/member platforms, are fast developing. Whilst these can be a valuable addition, it can be tempting to add in extras which may not be used or may not benefit the members. Since added services are usually provided at a cost, it's important that employers fully consider the suitability of such services. This will ensure that pension schemes remain as simple and easy to understand as possible.

However, providers may offer services which become essential facilities for the employer and members. Whilst these services may lead to extra charges, this may be justifiable if they add value to the scheme and are necessary to meet the needs of the scheme and its members.

As employer circumstances and provider services change, you should help your clients to ensure that they continue to receive value for money.

More information

You can find out more about automatic enrolment and the role that you can play by visiting www.tpr.gov.uk/help-clients-prepare. You can also view our guide for employers at www.tpr.gov.uk/selecting-a-pension.

Appendix – key areas in a good quality scheme

Key area	Considerations
Scheme simplicity	Workers' interest in, and understanding of, their pension savings is often very limited. It's important that the pension scheme reflects that possibility
Investment options	<p>Each investment option should suit a certain type of member</p> <p>Too much choice can be confusing for members. So the pension provider will need to be able to explain why each core investment option – in addition to the default option – is appropriate to the needs of the workers now or in the future</p> <p>The default investment strategy must be appropriate because it's likely that a large proportion of the workers will end up using it</p>
Managing investments	Members must be able to understand where their money is being invested and what risk that carries
Value for money	<p>The costs and charges taken from members' savings should be competitive when considered against the benefits and services that those members receive</p> <p>It should be clear what members are getting for their money, how much it costs and, importantly, whether they actually need any extra services provided</p>
The pension provider	<p>The individuals or organisations that run the scheme must have the requisite skills, knowledge and processes to carry out their role effectively</p> <p>Pension providers must be able to demonstrate how they ensure that the needs of scheme members are taken into consideration when they make commercial decisions</p> <p>The pension scheme's records must be accurate and up to date at all times to ensure that members can be contacted and that they are receiving the right information to monitor their savings</p> <p>The complaints process should be clear so that members understand how to make a complaint should problems occur</p> <p>Protections should be in place in the event of the pension provider entering difficulties</p>

Key area	Considerations
The pension provider <i>continued...</i>	The pension provider retains ultimate accountability for the work that is done on their behalf by third parties. This should be made clear
Communications	<p>Good quality communications should be regularly sent to the members of the scheme which explain their situation in a fashion which is easily understood</p> <p>When a member retires, they should receive information about how to turn their retirement savings into an income, including the open-market-option</p>

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