What impact will automatic enrolment have on small businesses?

Enrolsme White Paper
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Enrolsme: a quick, simple, online workplace pension solution for small businesses and charities.
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Executive summary

What is automatic enrolment?

All UK employers have to automatically enrol their staff (who meet certain criteria) into a workplace pension. It’s the law and every employer must comply\(^1\).

Automatic enrolment was introduced to make it easier for people to save for their retirement. The employer pays into the pension, as does the employee and the government will add in tax relief.

The world of pensions has never undergone so much change. The onset of automatic enrolment, coupled with the new pension freedom rules, will see the way in which retirees access their savings, receive guidance and manage their finances post-retirement, shaken up beyond recognition.

Impact on the small business sector

Automatic enrolment now affects small and micro employers; those employing less than 50 staff. As a result, thousands of small businesses are now working towards their staging date; the date when employees have to be enrolled into a workplace pension. 2015 starts to see an increase in the number of small businesses affected. April to June sees a spike - 17,100 small businesses will need to stage during this period. The first quarter of 2016 will be a real crunch point; with 110,000 businesses due to stage. And throughout the year, over half a million companies will need to start a pension scheme\(^2\).

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\(^1\) [http://www.thepensionsregulator.gov.uk/employers/what-is-automatic-enrolment.aspx](http://www.thepensionsregulator.gov.uk/employers/what-is-automatic-enrolment.aspx)

\(^2\) The Pensions Regulator – Employer staging forecast
A lot has been made of the success so far of automatic enrolment and there is plenty to be positive about, but with only 3% of the UK’s businesses having staged, there is still a long way to go. Time is ticking, and the last minute scramble to comply seems almost inevitable. The ‘capacity crunch’, as it is often referred to, is likely to put unimaginable strain on advisers and pension providers alike. Many are questioning how the professions will cope.

We know small business owners are busy people. Many may have concerns about the costs of offering a pension, and will have no idea of the time it takes to set one up, or who they might turn to for help. Crucially, the majority probably don’t realise that by not complying with the legislation, their business could receive a fine.

We have created a guide for small businesses - entitled:

**How to make sure you’re ready for pension auto-enrolment in three easy steps.**

The guide gives useful information on how small businesses will be affected by automatic enrolment and the steps they need to take to make sure they are ready.

**To download the guide, please visit:**

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Many surveys have been conducted on automatic enrolment and small businesses. However, a large number have looked into the lack of awareness and how prepared (or not) they are for their automatic enrolment journey.

With this research, we set out to look at the impact of automatic enrolment on the small business owner, their business and their employees.

There are 1.5 million small companies due to stage up until 2018. That’s a lot of businesses. We were keen to find out the true impact that automatic enrolment may have on this sector. Small businesses are often referred to as ‘the lifeblood of the economy’; so will complying with the legislation mean that these companies aren’t able to grow as quickly as they had planned to, or hoped to?

In February and March 2015, we commissioned Censuswide to conduct two surveys.

The first survey went to 200 small business employers and 50 charities (1-50 employees) who do not currently offer a workplace pension. The second to 250 employees in small businesses (1-50 employees) who do not currently offer a workplace pension.

Bringing the results of both surveys together, Enrolsme has been able to determine the extent of automatic enrolment on small businesses. The research findings provide the premise for this White Paper.
Key findings

Pay rises
- The onset of automatic enrolment means that more than one third (37%) of small businesses say bonuses and pay rises will be impacted. This rises to a worrying 43% for companies who employ 1 to 5 employees.
- 11% think it may even put them out of business; rising to 21% of companies with 1 to 5 staff.
- 72% of employees are concerned their pay rises are at risk because of automatic enrolment.

Business growth
- We asked employers if they thought automatic enrolment would negatively affect their business. They could choose as many, or as few answers as they liked. The top three answers were:
  - 37% said pay rises or bonuses would be impacted;
  - 29% said they wouldn’t be affected;
  - 26% said they won’t be able to take on more staff.
- Equally, 21% of employees think that their employer will be unlikely to expand or grow due to automatic enrolment.

Increasing the cost of goods and services
- More than one third (34%) of businesses believe they will have to increase the cost of their goods and services to pay for automatic enrolment, and a further 45% said they are not sure if they will need to.

Lack of awareness
- Almost one third (31%) of employers still haven’t heard of automatic enrolment.
- In spite of 69% of employers saying they know what automatic enrolment is, only 30% know when their staging date is.
- For employees, this figure is almost half - 49% still haven’t heard of automatic enrolment.

37% of small businesses said pay rises or bonuses would be affected.
Complying with the law

- 48% of employers did not know they could be fined if they do not comply with the legislation.
- But that being said, almost all (97%) of employers intend to comply with the law.
- Worryingly, 3% of employers say they won’t comply with automatic enrolment.
- Conversely, 48% of employees are either unsure or do not believe their employer will comply with the legislation.

Preparing for automatic enrolment

- 11% of employers advise they will leave their planning to the last minute. The most popular timeframe from our research.
- More than half (51%) will leave less than three months ahead of their staging date to plan.

For/against automatic enrolment

- 65% of employers are still not sure whether automatic enrolment is a good thing or not for their employees. However, 90% of employees think it is.
- 13% of employees said they would opt out of the automatic enrolment pension scheme when it’s offered to them, and more than half (53%) remain unsure. Worryingly, 86% of employees said they were worried they wouldn’t have enough money in retirement.

Commenting on the findings, Matthew Mitten, Director at Enrolsme, said:

“The research has uncovered some startling findings around the impact that automatic enrolment could - potentially - have on the remaining 97% of UK businesses that are still to stage.

I am saddened to read about companies stating they may need to review their pay structures, or which may go out of business.

Companies need to plan properly and as far in advance as possible in terms of complying with the legislation.

They shouldn’t underestimate the benefit of getting started sooner rather than later. They need to take the time to make the right decisions, begin carrying out actions and start to manage the cost.”

13% of employees said they would opt out of the workplace pension scheme
Impact that automatic enrolment will have on small businesses

Pay rises
The onset of automatic enrolment means that more than one third (37%) of small businesses fear that pay rises and bonuses will be affected. Unsurprisingly, this rises to 43% for businesses with 1-5 employees.

When asked the same question, 72% of employees believe future pay rises will be negatively impacted because of automatic enrolment.

11% of companies think that automatic enrolment could put them out of business, and although this may not seem like a lot, it equates to 165,000 companies. This rises even further to 21% for businesses with 1-5 employees.

“These are worrying trends, especially in light of further pressure on employers’ budgets. The recent announcement that the minimum wage is set to rise will not help small businesses feel any compulsion to look at further pay rises for staff”, comments Matthew Mitten.

With an improving economy in general, some employees working in small businesses could - potentially - be on track for a pay rise at some stage this year. But, they aren’t given one because the business had to factor in automatic enrolment costs. Would employees forsake their pension in order to get that all-important pay rise? Potentially.

I would hate to see all the good work of automatic enrolment being undone, because businesses had failed to plan properly.”

Increasing service provision costs
More than one third (36%) of companies with 1-5 staff said that they would need to increase the cost of their goods and services to accommodate automatic enrolment - whilst 48% are unsure.

“I wouldn’t anticipate customers having any issues with increased costs, however, the fact that the new legislation has the potential to stunt business growth is concerning,” says Matthew Mitten.

26% of employers believe that they won’t be able to take on more staff as a consequence of automatic enrolment. And a further 19% believe they won’t be able to invest in the business as they would have hoped.

Equally, 21% of employees thought their employer would be unlikely to expand and grow as a result of setting up the pension scheme, and 20% don’t see the company they work for taking on more staff.

However, one point to consider is the fact that 13% of employees don’t plan to join the scheme and 53% aren’t sure - 39% for affordability reasons. And yet 86% are worried about not having enough money in retirement.

When companies with 1-5 staff were asked if they would need to increase the costs of their goods and services:

- 36% would
- 48% aren’t sure
- 16% would not
Awareness levels of automatic enrolment have improved, but there is still some way to go...

79% of micro employers (1-5 staff) don’t know when their staging date is.

31% of employers still don’t know what automatic enrolment is.

There is often a lot in the press about the low levels of awareness when it comes to automatic enrolment. Our survey highlighted that 31% of employers still don’t know what automatic enrolment is, increasing to 37% in companies with 5-10 staff. Worryingly, this rises to almost half (49%) of employees that still haven’t heard of automatic enrolment.

Matthew Mitten believes that The Pensions Regulator (TPR) should be doing more to raise the profile of automatic enrolment.

“TPR does seem to be attempting to do more to raise the profile of automatic enrolment and workplace pensions through a media campaign,” added Matthew Mitten. “But given the fact that around 1.5 million businesses are yet to comply, I still find the lack of awareness at this current time a concern.”

Hundreds of thousands of small employers across the UK have either started to, or will shortly be receiving letters from TPR telling them of their automatic enrolment duties as an employer. How much attention will business owners, who are naturally preoccupied with running their company, pay to these letters? Given so many don’t even know what automatic enrolment is, let alone know what their employer obligations are, I believe there will be many letters left unread, or - worse still - thrown into the bin.”

The survey also highlighted that of the 69% of businesses that were aware of automatic enrolment, 70% didn’t know when their staging date was. This increases to 79% for micro employers (those employing 1-5 staff).

“If I was a small business owner or manager, I would want to know when my organisation needed to comply, so that the necessary planning could be put into place,” added Matthew Mitten.

“What is even more concerning is that 48% of companies don’t realise they could be fined for not meeting their staging date.

However, more worryingly TPR will insist a business backdates the employer and employee contributions for those who are late - a much stiffer financial penalty. And, businesses with more than 4 employees could be fined £500 per day. This will undoubtedly get their attention.

I really believe now is the time for the government to issue specific warnings to small businesses not to put automatic enrolment on the back-burner. Its messaging needs to highlight that it doesn’t need to be complex and should be communicated through trade and industry bodies; the Department for Work and Pensions, accountants, banks and so on. It doesn’t have to be about the fear of the unknown. There are providers and partners who can guide their businesses through the process quickly and easily.”

48% of employers were unaware that they could receive a fine if they offered incentives to their staff to not join the scheme.
Most advise that they will comply

Encouragingly, 97% of employers have said they will comply with the legislation.

3% advise they won’t comply with the legislation.

“Whilst only 3% advise they won’t comply, and that seems like quite a low figure - this equates to 45,000 small businesses in total, that’s actually quite a lot.” adds Matthew Mitten. “I’d imagine it’s the usual case of burying their heads in the sand when it comes to all things relating to pensions. But, this is critical stuff, and I’d urge employers not to switch off. After all, it’s about the financial futures of their staff and most companies want to look after their staff.”

When it comes to the employees, it seems almost half (48%) doubt their employer will even offer a pension to them.

“There is almost a lack of confidence, possibly even trust on the part of the employee - many doubt whether they will in fact be offered a workplace pension. But it clearly goes against what small employers say they will actually do.” says Matthew Mitten.

Who will small businesses turn to for advice?

Almost half of respondents will research online to find out information and get guidance on what they need to do.

Unsurprisingly, the next most popular source of guidance for small businesses was to ask their accountant or bookkeeper at 42%. This rises to 59% in businesses with 1-5 employees.

And, 27% think that their accountant will be primarily responsible for helping to set up their pension. This rises to 39% in businesses with less than 5 employees.

Matthew Mitten believes that 2015 will not only be a real crunch point for businesses, but for their accountants too.

Accountants should be putting automatic enrolment on the agenda for every client meeting this year.

“As professionals, they are generally good planners; whereas, many of their clients are unlikely to be so efficient. Accountants will know which of their clients are historically bad at planning ahead. They should be drawing up short lists of those they need to talk to and to alert about their automatic enrolment responsibilities and deadlines. Accountants we talk to are doing more than sending letters. They are picking up the phone and speaking to their clients. As the trusted adviser, they can add plenty of value by helping their clients to look at the potential cost implications early on.”

11% of those businesses we surveyed said they would leave staging until the very last minute

“Of those businesses we surveyed said they would leave staging until the very last minute.”
More than half (51%) of employers said they would leave their planning to less than three months, and 30% to less than one month. 41% of small business owners said they’d be the ones responsible for automatic enrolment in their business.

Matthew Mitten says, “In the first quarter of 2016, an estimated 101,000 businesses are due to stage, which is more than those that will have complied in the previous three years. This is why we have built Enrolsme - to cope with the serious demand that the industry is likely to see. Years of working in the pension profession has led me to believe that companies will always bury their head in the sand and put off to tomorrow what they could do today. A good technology solution will remove all of the manual work. Where providers have to cater for every possible scenario (for example, pension schemes and payroll) their software can be complex and they often only perform one part of the entire process. Most companies will just need a simple solution, which they can effectively plug in and play, without all the complexity. Technology can be a real winner - where it is simple and can cater for all needs at a relatively low cost. It should also take up as little time as possible - not interfering with the daily running of the business.”

Planning issues
Planning for automatic enrolment is considered one of the main issues for small businesses. Businesses need to get ahead now, and to start planning - to effectively do as much as they can in advance of their staging date.

“Being prepared gives businesses enough time to get their payroll data ready, which is often the tricky part of the entire staging process,” Matthew Mitten says.

11% of those businesses we surveyed said they would leave staging until the very last minute - just before they had to, to avoid a fine. In 2016, this would equate to approximately 68,000 companies alone - and given 1.5 million businesses will stage before the end of 2018, this would be approximately 165,000 companies.

Matthew Mitten adds, “The ‘capacity crunch’ is a term often used for the last minute scramble to comply. This seems almost inevitable, placing unimaginable strain on advisers and providers alike. "It’s hard to know, at this stage, if the professions will cope.”

For and against automatic enrolment
13% of employees said they would opt out of the automatic enrolment pension scheme when offered to them.

“It’s interesting to see that more than half (53%) remain unsure - there is clearly some work still to do. And, given a whopping 86% of employees stated that they are worried they won’t have enough money in retirement, shouldn’t this put the opting out issue under the spotlight?”

However, one third of employees (34%) do plan to opt into the pension, Matthew Mitten adds: “I think whilst employees only have to pay 1% of their salary into a pension, most will be happy to be part of a scheme. However, when this figure jumps to 3% in 2017, will this trend continue? Or are we creating a perfect storm for low opt out rates now, with a sting in the tail further down the line?”

When it came to assessing the value of automatic enrolment, nearly two thirds (65%) of employers are still not sure whether or not it is a good thing for their employees. However, 26% said they believe automatic enrolment is a good thing, with 9% being against.

When it came to asking employees, 90% believe automatic enrolment is a good thing.
Matthew Mitten

Matthew Mitten is a specialist in the field of pensions and automatic enrolment. He is a Director of Enrolsme; a complete online workplace pension auto-enrolment solution for small businesses. Enrolsme is part of Foster Denovo Limited.

Matthew has 15 years’ experience working in the financial services and employee benefits industries. He has been instrumental in the successful implementation of numerous employee benefits and pension schemes, and has supported many companies through their automatic enrolment journey.

He is also a Partner (financial adviser) at Secondsight (www.second-sight.com), a multi-award winning employee benefits adviser (and part of Foster Denovo Limited).

Matthew’s knowledge of the pension and benefits sectors is extensive. He has been involved in all aspects, including: automatic enrolment implementation, new pension scheme launches, financial education programmes and flexible benefit design.

Matthew is frequently quoted in HR, pensions and employee benefits publications for his opinion on automatic enrolment, pensions and benefits issues. He regularly speaks at HR events.

About Enrolsme

Intelligent auto-enrolment

Enrolsme is part of the multi-award winning national firm of financial advisers, Foster Denovo, who were established in 2005.

Since the launch of automatic enrolment, we’ve had lots of experience of working with larger corporate clients; helping them get prepared for automatic enrolment. Many of which are well known brands. Their circumstances were pretty complicated and they needed expert advice to make sure they were ready in time. We learnt a lot.

Enrolsme for small businesses

Pensions automatic enrolment affects small businesses too, so why not invent something simple to help them comply? An online ‘virtual consultant’ would be ideal.

So we created Enrolsme; an affordable, compliant, online auto-enrolment guided solution that is perfect for small businesses and charities.

Enrolsme is a non-advised process and other options are available which may be better suited to your needs. They may be more complex and we don’t offer them under this solution. If you want to explore these options you may want to contact a financial adviser.

If you are interested in learning more:
e-mail: hello@enrolsme.com
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visit: www.enrolsme.com